Consumer Communications
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Bell Atlantic Merges With GTE: Wild Things Are Happening!

Executive Summary

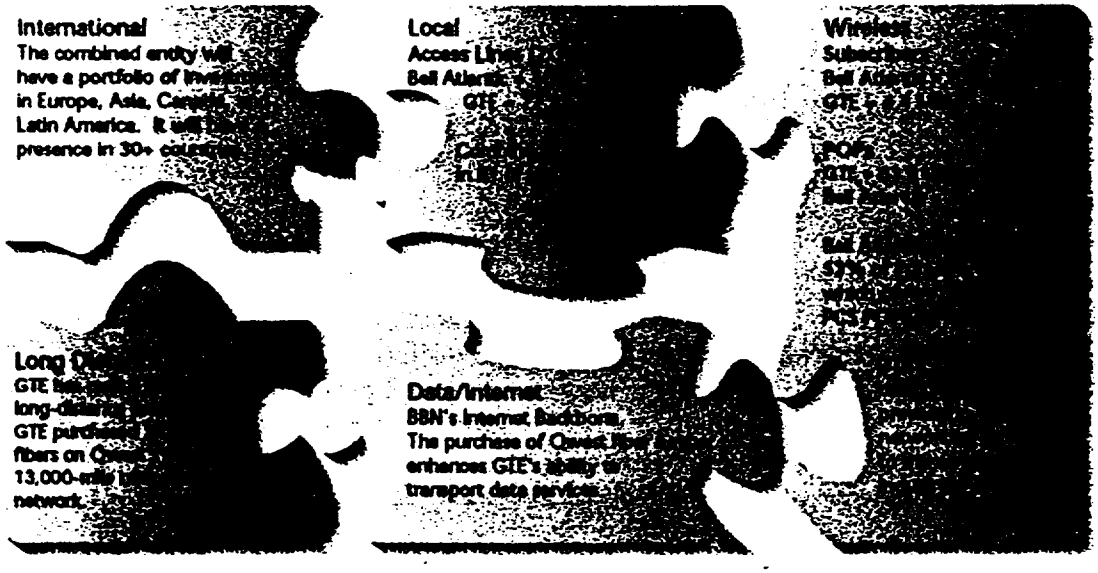
On July 28, after much speculation, Bell Atlantic and GTE formally announced their intentions to merge. If approved, the yet-to-be-named new company will create a local, long-distance, wireless, and Internet powerhouse well-positioned to compete with the likes of other integrated providers such as AT&T and WorldCom/MCI (see Exhibit 1).

This deal, valued at $52.8 billion, reinforces the importance to telecom providers of scale, scope, and a diversified portfolio of telecom and Internet services. In a nutshell, it prepares Bell Atlantic and GTE for the future telecommunications industry, a market dominated by a handful of integrated carriers that can serve the national and international needs of their customers by providing local, long-distance, data, wireless, and global capabilities. While this deal will be scrutinized carefully by skeptical regulators, there is no doubt the combined Bell Atlantic/GTE will argue that the merger will create more competition, not less.

No matter how this debate is resolved, the merger further concentrates power in the telecommunications market, and eliminates a potential competitor. These factors just might give the regulators and the Justice Department enough fodder to either reject the deal or extract new concessions from the combined company. Such concessions may include stiffer policing of the companies' competitive activities in the local markets, and a spin-off of wireless or Internet assets.

Overall, we believe that this "merger of equals" bodes well for both Bell Atlantic and GTE as well as their customers. Besides the obvious economies of scale that are gained by combining two telecommunications giants, each side brings to the table some valuable assets (i.e., thriving wireless businesses, extensive local properties, long distance, a plethora of international investments, and a nationwide data network) that position the new entity for explosive growth on both a national and international scale.

Exhibit 1
Putting the Pieces Together
Source: the Yankee Group, 1998



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I. Terms of the Deal

Under the terms of the merger, GTE shareholders will receive 1.22 shares of Bell Atlantic stock for each share of GTE. Adhering to the norm it established with the NYNEX merger, Bell Atlantic did not pay a premium for GTE. In fact, the deal valued GTE at $54.90 per share, below its July 27 closing price of $55.75. This has fueled speculation that another company, perhaps BellSouth, may make a counteroffer for GTE. It is also likely to raise some eyebrows among GTE's shareholders.

The new company will be headquartered in New York City with a strong operational presence in Dallas and other locations. The combined entity will be the largest local provider in the United States, with combined revenues of $53 billion, 63 million access lines, approximately 10.6 million wireless subscribers, and international operations in more than 30 countries. In its first three years of operation, the new company expects synergies of $2 billion in revenue, $2 billion in expense, and $500 million in capital expenditures.

Each side will be equally represented on the new entity's board of directors. GTE's Charles Lee will serve as chairman and co-CEO, while Bell Atlantic's Ivan Seidenberg will serve as president and co-CEO. This unusual power-sharing arrangement will eventually be phased out as Seidenberg assumes sole control, first as CEO on June 30, 2002, and then as chairman on June 30, 2004.

Will these corporate cultures clash, or will the two top executives be able to share power? And what will happen to the rest of the top executives at both companies? While GTE executives are known as a management team with a "let's do" attitude—as illustrated by the innovative launch of a competitive local exchange carrier (CLEC) unit to compete in-region and out-of-region, the deal with Qwest for 24 dark fibers along its national network, and the purchase of BBN—Bell Atlantic's executive team has been more traditional in its strategy. The top executives mirror their cultures. Seidenberg's experience working for the assertive Ray Smith will serve him well as he begins his new partnership with Charles Lee. As with any merger, we expect there will be some initial corporate angst, particularly as the chairs are reshuffled in the executive suite. However, since there is very little operational overlap, most jobs should be secure. In spite of their differences, we believe that these two executives will produce a high-growth, highly competitive company.

Who Brings What to the Table?

It is clear that both companies believe the winners in the current telecom war of attritio will be the integrated carriers—full-service national and international telecommunicatic providers. It is equally clear that this merger is designed to ensure the new company a place in the winner's circle. Is it enough? In general Bell Atlantic brings mass, quality customer service, superior marketing skills, wireless and international assets, and acces to telecommunications-intensive *Fortune 500* companies. GTE brings national scope, long-distance expertise, data/Internet assets, and wireless and international assets.

Bell Atlantic, the incumbent local exchange carrier (ILEC) in the Northeast, dominates the region from Maine to Virginia. This area is home to a substantial portion of the U.S.-based *Fortune 500* companies, the federal government and its agencies, 13% of U.S. households, and 23% of the U.S. population. Almost 27% of the switched access lines in the United States operate in this territory, including over 28% of the business lines and 26% of the residential lines. Bell Atlantic controls 40.8 million access lines i the territory. This region is responsible for over 28% of the originating and terminatin interstate minutes of use in the United States. Although Bell Atlantic is the dominant local provider, the company cannot provide long-distance voice and data services to its in-region customers until it receives regulatory approval, a factor that severely limits th company's ability to service large corporate customers.

In addition to the sheer mass of customers and enterprises that Bell Atlantic contributes the company also brings a very successful provider of solutions for integration of local- and wide-area networks, Bell Atlantic Network Integration (BANI). Beyond its domestic wireline operations, Bell Atlantic also has approximately 55 million domestic wireless POPs and 6 million subscribers. Its international assets include a 38% interest in the Fiberoptic Link Around the Globe, Ltd. (FLAG) partnership, plus additional international wireline and wireless assets.

Bell Atlantic also delivers a reputation for quality customer service, particularly among consumers. The company demonstrated its superior marketing skills after the NYNEX acquisition as it raised the penetration rates of vertical services in the NYNEX territory. The new company expects that leveraging these skills will contribute to the anticipated $2 billion revenue increase.

In contrast, GTE's local territories are dispersed, with 22.3 million access lines scatterec throughout 28 states. Although GTE's franchises are primarily in second- and third-tier cities, the company also has a presence in some key markets such as Los Angeles, Tampa, and Dallas. Unlike Bell Atlantic, GTE can and does offer long-distance voice and data services to its in-region customers. In fact, through its 1997 acquisition of BBN and recent purchase of Qwest dark fiber, GTE has a nationwide long-distance voice, data, and Internet network.

GTE also contributes significant wireless assets to the new company, including 4.6 million domestic and 2.2 million wireless subscribers. GTE Government Systems, a major player in international wireless systems integration, will come in handy as the new company pursues additional opportunities overseas. Finally GTE brings the historically undervalued GTE TSI, a wholly owned subsidiary of GTE that plays an important role in providing international roaming, fraud protection, an SS7 backbone, and a billing clearinghouse to the wireless industry.

So, is the new company an integrated provider? It will have:

- A substantial local market presence;
- A foothold in the long-distance market, long-distance capacity, and operational expertise that can be leveraged by market-savvy Bell Atlantic;
- Extensive domestic wireless assets; and
- Substantial international assets, including transcontinental capacity, that will reduce operations costs.

The merger is very complementary, and the new company will have all the basic components of an integrated carrier. Although there are many challenges facing the combined company, including obtaining access to the Bell Atlantic in-region long-distance market and finalizing a name, the Yankee Group believes that the new entity will be a formidable competitor.

This deal lands Bell Atlantic right in the middle of some prime SBC territories—which is sweet revenge for SBC's incursion into the heart of the Bell Atlantic footprint with its purchase of Connecticut's Southern New England Telephone (SNET). With access to in-region long distance, the company will truly compete for the multinational and national business customers. We also view the numerous international assets of the combined company as a stepping stone for future global partnerships in both the wireless and wireline arenas, an important leap that the company must make to become a truly integrated global provider.

II. The New Competitive Landscape

Beyond the specifics of this particular deal, it is apparent that there is something larger afoot in the North American telecommunications market. As evidenced by the flurry of recent mergers, acquisitions, and joint ventures, large telephone companies in the United States believe that the future of the communications industry will be dominated by a few, very large companies that offer local, long-distance, wireless, data, and Internet services on both a domestic and global basis (see Exhibit 2). For the last few years, the annual reports of the largest communications companies have contained statements that allude to a predetermined future that is made up of merely half a dozen large, dominant telecommunications providers, and each company believes that it will be among this chosen few. The proof of this supposition seems to exist solely in the fact that it has been repeated over and over. Whether it is true or not is less important than the fact that the large telecommunications providers believe that it is true.

For local phone companies, the options available to reach this dream of hugeness are limited. Federal regulators publicly frowned on the rumor of a merger between AT&T and SBC, indicating that they were not disposed to let ILECs grow by joining forces with a long-distance carrier of any size. In fact, ILECs do not need to acquire a long-distance company as much as they simply need authority to enter the market. The actual infrastructure needed to begin selling long distance is minimal, due to a flourishing wholesale industry.

Exhibit 2
Bell Atlantic/GTE vs. Other Integrated Carriers*
Source: the Yankee Group, 1998

	AT&T/TCI	WorldCom/MCI	SBC/ Ameritech/SNET	Bell Atlantic/GTE	Sprint
	$59.30 billion	$27.10 billion	$42.39 billion	$53.45 billion	$14.87 billion
	TCG had 282,700 access lines and networks in 66 markets	Networks in 92 cities covering 70% of U.S. businesses	56.25 million access lines throughout 13 states	61.46 million access lines throughout 38 states	7.40 million access lines in 19 states
	41,000	45,000	None	24 fibers along Qwest's planned 13,000-mile national network	26,000
	580 POPs	400+ POPs	N/A	300+ POPs	200+ POPS
	8.1 million subscribers and 225 million POPs	Wireless resale activities about 400,000 subscribers	9.4 million subscribers and 102 million POPs	10.6 million subscribers, 100 million domestic POPs, and 115 million international POPs	1.4 million subscribers and 148 million POPs
	International presence in 100+ countries; recently announced a joint venture with BT	Presence in 200+ countries	Presence in 25 countries	Presence in 30+ countries	Global One Alliance—joint venture with France Telecom and Deutsche Telekom

** Data is for year-end 1997*

It is because the RBOCs are somewhat limited in their choices of acquisition that they have gone the route of joining forces. As U.S. Representative W.J. Tauzin remarked, "This only points out what I've been saying all along: If the FCC won't allow the regional Bell companies into the long-distance market, they are going to merge their way into it."

The companies have similar organizational structures, competitive pressures, and capabilities. Unlike other mergers of late (WorldCom/MFS/Brooks/UUNET and AT&T/TCG/TCI), for the RBOCs, and more specifically in the case of GTE, these mergers all come down to size and efficiency, not necessarily to additional capabilities.

III. What Does This Mean for Businesses?

If you believe what Ivan Seidenberg has been saying all along, that he'd rather own 10% of the world than 100% of his local market, then, when you come right down to it, this deal is about the ability to serve large domestic and multinational corporations on a national and even global scale. This merger of equals gives Bell Atlantic the ability to serve its large business customers with an expanded portfolio of value-added services, and an extended local presence to give it a national and international reach.

In fact, 35%, or 175, of the *Fortune 500* companies headquartered in the Bell Atlantic territory spend between $50 and $55 billion annually on telecommunications services. Today, only 8% of that is spent with Bell Atlantic. The new company sees this deal as a means to increase that percentage by expanding its product portfolio and, more importantly, its data capabilities. The new company plans to selectively follow customers out-of region. This most likely translates into securing the headquarters account of those corporations in the Bell Atlantic/GTE territory and then expanding service to these customers nationwide.

Indeed, this deal gives Bell Atlantic a big push forward in its efforts to deploy a data network, something of an Achilles' heel for the carrier. Not surprisingly, Bell Atlantic has been hard pressed to compete in the data arena against a number of the more data advanced CLECs that have been successful particularly in the New York market.

While Bell Atlantic has yet to receive in-region long-distance authority, it is working closely with the regulators to ensure that its New York long-distance application satisfies the 14-point checklist and gets approved. We expect that the company will gain entry in New York before the closing of this merger. This too opens up a number of opportunities for Bell Atlantic. GTE's portion of the Qwest backbone should be complete sometime in 1999, and this should considerably improve overall margins. Consider that 40% to 45% of all of Bell Atlantic's toll traffic originates and terminates in-region, and that 75% of the remaining originating traffic could be carried on the Bell Atlantic/GTE network.

While the merger between Bell Atlantic and GTE is not as critical to small and medium businesses (SMBs) as it is to large businesses, there are modest implications for many medium-sized businesses. For those businesses that possess multiple sites across the country, the new company could serve as the single source provider of bundled solutions. In the early stages of the merger, we believe it will only lightly affect small businesses, as these companies are either located at a single site or on a very local basis. While the added girth does little to initially enhance Bell Atlantic/GTE's ability to address the specific needs of this market, in the long run we see the added ability to provide bundled services benefiting the company in its pursuit of SMBs. Indeed, the SMB market, which continues to understand and embrace the importance of more sophisticated technologies such as Internet access, LANs, and WANs, has been a lucrative niche for CLECs, and this may just be Bell Atlantic's opportunity to win back some of those customers.

In a recent small-business survey that looked at customer loyalty, the Yankee Group found Bell Atlantic and GTE to be on opposite ends of the spectrum. GTE received a loyalty score of 60% from small businesses, the lowest ranking among carriers. Conversely, Bell Atlantic ranked highest among all carriers, with 78% of its small-business customers stating that their loyalty has been earned. Indeed, this merger will give Bell Atlantic an enlarged small-business market base to which it can apply its quality customer service and improve GTE's ranking among small-business customers.

Overall, this merger moves the new company closer to becoming a complete provider of communication services to businesses. Its robust data network, enhanced Internet backbone, expanded local presence, and experienced long-distance team will provide it with the tools necessary to compete against other integrated carriers for both the corporate user and SMBs.

IV. What Does This Mean for Consumers?

From a consumer perspective, the merger is of little consequence, especially for those consumers currently being served by Bell Atlantic; however, consumers served by GTE will probably see a concerted effort by the new company to improve customers' perceptions once the merger is approved. While neither Bell Atlantic nor GTE meets the U.S. average when it comes to customer service ratings, Bell Atlantic has been able to get the message across to customers that the company is doing a good job, as evidenced by its overall ranking by subscribers (see Exhibit 3).

In addition to improved customer service, consumers currently served by GTE should expect to have more Custom Local Area Signaling Services (CLASS) such as Call Waiting with Caller ID marketed to them. As shown in Exhibit 4, GTE lags behind Bell Atlantic in penetration rates for these services. Expect to see the success of Bell Atlantic's marketing skills put to the test of improving GTE's overall penetration of Custom Calling Services (CCS)/CLASS.

Lastly, the area where it is likely that Bell Atlantic will create some big waves is in the marketing of GTE's long-distance services. The Yankee Group believes Bell Atlantic will do for GTE long distance what it did for take rates on NYNEX's CLASS services, which is to boost them to an acceptable level of availability and penetration. Today, only 10% of GTE residential customers subscribe to GTE long distance, which when compared to other ILECs offering long distance (e.g., SNET), reveals some underperformance in its marketing. For example, over 40% of SNET's customers also subscribe to SNET long-distance; and what makes the low 10% rate of long-distance subscription in the GTE area even more disturbing is that in our Technologically Advanced Family (TAF) survey almost 76% of GTE residential customers said they were either very (28.1%) or somewhat (47.7%) interested in having a single provider for both local and long-distance phone service. Additionally, as penetration rates for GTE long distance increase among GTE subscribers, the bundle of local and long distance will help decrease the number of subscribers who would change their local carrier because of the convenience of the combined services.

Exhibit 3
Bell Atlantic and GTE—Room to Improve Customer Service
Source: the Yankee Group TAF Survey, 1998

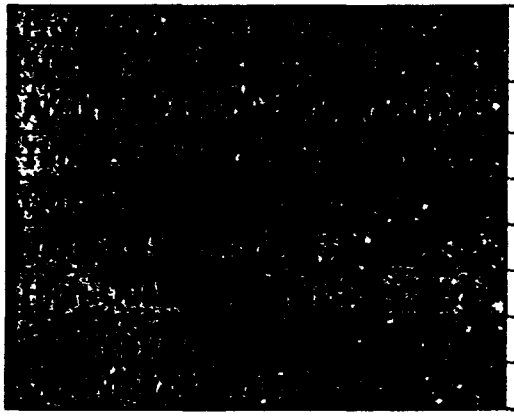
	Percent Ratings		
	U.S. Average	Bell Atlantic	GTE
	51.8	48.9	46.6
	51.8	47.4	50.3
	44.6	42.7	37.8
	41.6	41.3	39.4
	32.7	30.3	29.3
	52.4	51.8	47.9
	46.0	43.5	44.5
	43.3	40.1	41.6

Exhibit 4
Enhanced Service Penetrations
Source: the Yankee Group TAF Survey, 1998

	Percent Penetration		
	U.S.	Bell Atlantic	GTE
[redacted]	20.1	16.3	14.5
	19.3	13.9	13.5
	4.0	3.4	2.0
	62.9	75.5	47.1
	38.4	53.7	31.9

V. Implications for the Wireless Industry

From this deal flow a number of important implications that will ultimately affect the wireless industry. A combined Bell Atlantic/GTE would have the largest installed base of wireless subscribers in North America—at over 10 million. The new company would cover 100 million proportionate POPs, and would be the country's second largest CDMA network after Sprint PCS. In particular, Bell Atlantic has been one of the most aggressive among the cellular carriers with respect to rolling out digital service, reaching about 80% of its potential subscribers to date. The combined entity will have a larger and more comprehensive CDMA network, which will certainly help secure better agreements from infrastructure and handset manufacturers. AT&T Wireless, which has about two-thirds of its total POPs at 1,900 MHz, will likely retake the number-one position from Bell Atlantic/GTE as it ramps up subscribers in its PCS markets (see Exhibit 5).

Exhibit 5
Top Five Wireless Carriers in Terms of Subscribers*
Source: the Yankee Group, 1998

Carrier	Total Licensed POPs	Number of Subscribers (June 1998)
[redacted]	100 million	10.6 million
	102 million	9.4 million
	225 million	8.7 million
	91 million	7.3 million
	84 million	5.4 million

** Assumes Bell Atlantic/GTE, SBC/Ameritech deals go through. Subscribers are reported on a consolidated basis and include partnership markets. BellSouth and AT&T include both cellular and PCS operations. Subscribers are U.S. only. POPs are adjusted for overlap.*

From a network perspective, the Bell Atlantic/GTE merger makes more sense than the Ameritech/SBC/PacTel/SNET combination, which must meld together three disparate digital networks. GTE adds some markets contiguous to Bell Atlantic Mobile (BAM) in the Mid-Atlantic and Southeast, plus major cities in Texas, Florida, and California. An even bigger advantage is that some of PrimeCo's licensed markets in the Midwest overlap in more than a few cases with the areas where GTE is strongest in providing local exchange services.

The most immediate issue the two companies must deal with is the 900,000-POP overlap in the companies' cellular businesses. No doubt, one of the parties will be forced to shed some licenses. On the PCS side, Bell Atlantic owns 53% of PrimeCo PCS, which is licensed to serve 57 million POPs, 15 million of which overlap with GTE. The critical cities in this overlap area include Houston, Tampa–St. Petersburg, Norfolk–Virginia Beach (part of the Richmond MTA), Austin (part of the Dallas MTA), Richmond, and Honolulu. In those areas where PrimeCo and GTE overlap, the total spectrum owned would exceed the FCC's 40-MHz cap, so something would have to be done with these licenses.

One scenario could involve AirTouch, which owns the remaining share of PrimeCo, taking over control of these licenses. In return, BAM/GTE would assume greater control of certain non-overlap PrimeCo markets such as Chicago. The other dynamic at work here is that BAM and AirTouch have historically had complementary cellular properties. With their sharing of PrimeCo PCS, there had been some speculation that they would ultimately merge their wireless operations. Now, GTE (which competes with AirTouch in markets such as San Francisco and San Diego) throws a new competitive monkey wrench into the Bell Atlantic/AirTouch relationship. The PrimeCo agreement states that any conflicting property be disposed of within six months.

To complicate the matter even further, there is likely to be a shake-up in the executive suite as the companies' wireless operations are combined. Dennis Strigl, who has led BAM through two particularly competitive years to emerge as one of the top performing large cellular carriers, is a frontrunner, we believe, to assume the helm of a larger, merged wireless organization if such an entity exists down the line.

Another interesting challenge for the two companies to tackle is branding. Current BAM customers, especially former NYNEX Mobile customers in New England and New York, have lived through three rebranding initiatives in as many years—from NYNEX Mobile to Bell Atlantic NYNEX Mobile to its existing branding today, Bell Atlantic Mobile. Exactly how the new company's wireless operations will be rebranded (which is what the companies have said will occur) remains a challenge, especially since BAM has a very strong brand in the Northeast and Mid-Atlantic regions. GTE's brand is also strong on a local market basis but is far more diluted nationally. Throw PrimeCo—which has spent tens of millions building its own brand—into the mix and things get even messier.

Also the Largest Cellular Data Network

Additionally, GTE Wireless and BAM are two of the more proactive carriers in targeting wireless data markets and packaging solutions-oriented services. Both have substantial CDPD implementations, and both lead in market development with highly vertical-oriented strategies such as public safety, field service transportation, and health care.

The Yankee Group estimates that, together, they have approximately 60% of the existing CDPD market. Both BAM and GTE are wisely positioning CDPD as one technology option among a menu of data services, while pursuing migration strategies to CDMA-based packet- and circuit-switched data. It is to this end that the companies have the opportunity to pool resources, industry expertise, and customer support.

The key to success in wireless data is innovative service packaging and pricing. Because the wireless data industry is maturing, operators, who were previously forced to take the initiative in selling wireless data, can now increasingly utilize technology provided by a number of third-party application developers. And the involvement of industry leaders such as Microsoft, Oracle, IBM, 3Com, and Compaq offers the opportunity for standards-based solutions that enable true connectivity between wireline and wireless environments. The combined strengths of BAM and GTE working in cooperation with these industry players would give them a leadership position in the emerging wireless/mobile data market.

More Wireless Mergers on the Horizon?

When and if it becomes clear that both the Bell Atlantic/GTE and the SBC/Ameritech deals will go through, the Yankee Group expects additional mergers in the wireless industry. There has already been a rash of deals among the second-tier players (see our April 1998 Wireless/Mobile Communications North America Report, "First Quarter Wireless Industry Update: Consolidation in the Midst of Competition"). BellSouth, which is "not looking but amenable to the idea," remains the one RBOC-based cellular carrier that has not partnered or merged with anyone, and there have been rumors that it might trump Bell Atlantic's bid for GTE. We have also been saying for a while that there will likely be some consolidation among the growing GSM-based PCS carriers, such as Omnipoint, Western Wireless, and PowerTel. And Nextel, the enhanced specialized mobile radio (ESMR) carrier that has been the fastest growing wireless carrier and a true success story with a differentiated strategy, is also a likely candidate to be acquired in the next round of consolidation.

VI. Internet/Data Issues

Data Transport Services: Network Integration Issues

The proposed merger will ultimately spawn a data services organization capable of providing long-distance frame relay and ATM services, while improving the combined Bell Atlantic/GTE's competitive position. However, integrating the disparate networks is a formidable task, and one that will require a good deal of time. In fact, the network integration challenges faced by Bell Atlantic/GTE mirror those confronting SBC, which is still working to interconnect the data networks it acquired from PacBell in 1997.

The most complicated network integration issue for the combined company is its frame relay network. Bell Atlantic, which offers frame relay services throughout its territory, relies on Newbridge 361XX switches. GTE, on the other hand, whose frame relay network reaches into 23 states, relies on Ascend B-STDX switches. The frame relay standards implemented by these switches fall far short of providing what's needed for

integration, so some custom development will be necessary. In the meantime, Bell Atlantic/GTE will probably need to maintain separate billing systems, which will likely prevent quality of service mechanisms from functioning end-to-end if all traffic is funneled through central gateways.

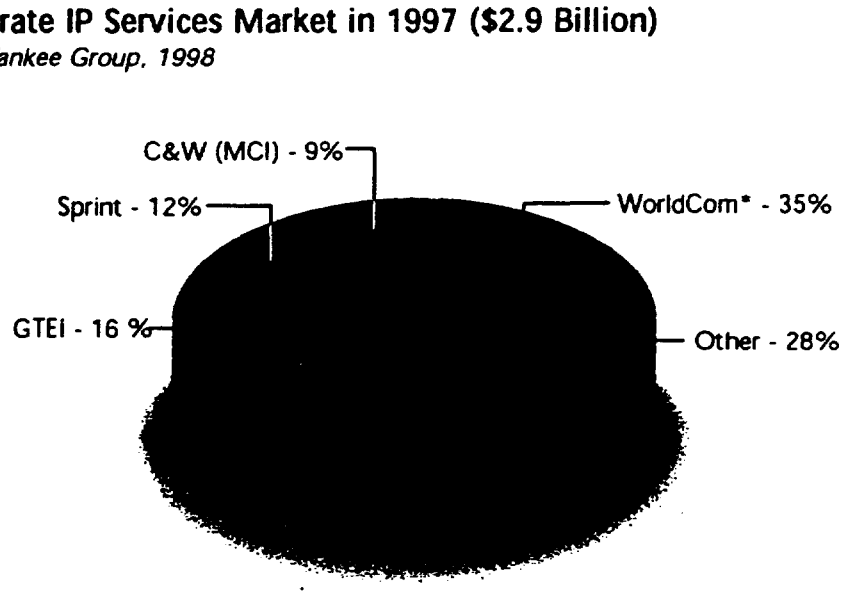
On a positive note, the network integration challenges are not nearly as daunting on the ATM side. Both carriers have deployed Ascend's CBX 500 switches. GTE also uses a variety of other switches, including Newbridge's 361XX, Fujitsu's Fetex 150, and Lucent's Globeview. But, since these switches already interoperate within GTE's network, it should be a relatively simple task to bring Bell Atlantic's Ascend switches into the fold.

Internet Services

The Yankee Group anticipates that as it crafts the next generation of Internet Protocol (IP) value-added services (VAS), GTE Internetworking (GTEI) will be the key division for the Bell Atlantic/GTE combined company. GTE holds the number-two position in corporate IP services with a 17% market share, second only to WorldCom with a 37% market share of a $2.9 billion market in 1997 (see Exhibit 6).

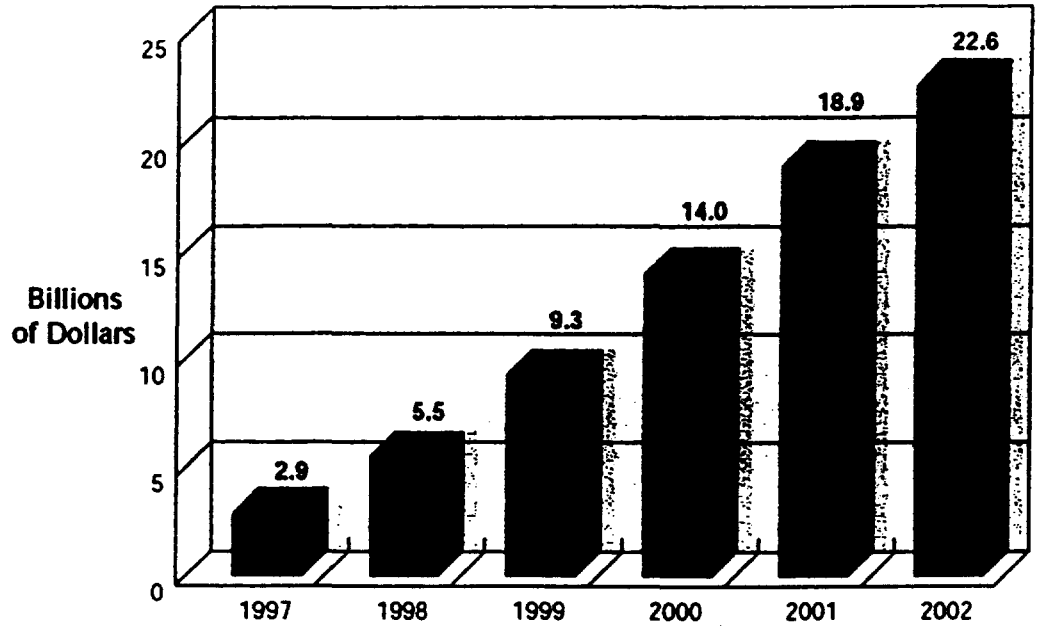
While GTEI may be the most important piece in the IP puzzle, both Bell Atlantic and GTE bring key IP services to the merger. Bell Atlantic has been aggressively rolling out IP products in an attempt to take advantage of the growth of corporate IP services, which the Yankee Group predicts will grow from $2.9 Billion in 1997 to $22.6 Billion in 2002 (see Exhibit 7). In a relatively short time, Bell Atlantic has been able to accumulate over 1,000 dedicated access corporate customers, and 400 Web-hosting customers, but its managed firewall services are relatively new and the company has not yet realized significant customers to date (see Exhibit 8).

Exhibit 6
U.S. Corporate IP Services Market in 1997 ($2.9 Billion)
Source: the Yankee Group, 1998



**WorldCom revenues include revenues from ANS and CompuServe Network Services.*

Exhibit 7
U.S. Corporate IP Services Market (1997–2002)
Source: the Yankee Group, 1998



In contrast, GTEI, which has continued to build on the expertise of the BBN Planet organization it acquired in mid-1997, has become the solid number-two IP service provider. As such, GTEI offers consumers, businesses, and government agencies customer dial-up and dedicated Internet access, Web hosting, network security, consulting and systems integration, and 24x7 network monitoring and troubleshooting from its Network Operations Centers. GTEI has clearly positioned itself as a leader in the firewall space by providing both managed firewall services and Adaptive Network Security Management (intrusion detection and security assessment). In addition, GTEI was one of the early leaders in offering IP-based virtual private network (VPN) services, and with roughly 1,000 Web-hosting customers, it is among the top four providers of high-end dedicated Web hosting.

Exhibit 8
Internet Customers
Source: the Yankee Group, 1998

	Dedicated Access (Corporate)	Dial Access	Web Hosting	Managed Security
	4,000 (estimated + $200 million in wholesale revenue from on-line service providers, such as AOL, and ISPs)	650,000	1,000 (50% dedicated, 50% virtual hosting)	270+ managed firewall customers
	1,000	160,000	400 (20% dedicated, 80% virtual hosting)	Beginning to roll out service

On the network side, GTEI has completed 5,200 miles of its planned 16,000 mile Gl Network Infrastructure build based on fiber capacity purchased from Qwest network has over 200 POPs in the United States and is available in over 220 countries.

The Yankee Group believes that Bell Atlantic's Internet operations will be merged in the GTEI family and the combined company will continue to leverage BBN's experti We expect that the infrastructure build that Bell Atlantic was planning will be scaled back, particularly on the long-haul and intraregion connections. The Bell Atlantic m hubs will continue to be rolled out in the areas where GTEI does not have a presence and look for Bell Atlantic to eventually consolidate some of the GTEI POP facilities : its central offices.

Network Integration Services

Yet another piece that Bell Atlantic brings to the table is its success in the network integration services market, which it has been in for five years through its subsidiary, Bell Atlantic Network Integration (BANI). The subsidiary, which has been aggressive identifying key niches within the integration market, does not resell transport, but is instead devoted to integration of local- and wide-area networks, including the provisioning and remote monitoring of CPE. In fact, it was first among ILEC subsidiaries to provide a package of services and equipment for remote access particularly aimed at key vertical industries such as banking and health care; and in November 1997, BANI announced a commercialized Year 2000 (Y2K) initiative to bri customers' networks into compliance with Y2K requirements.

In contrast, GTE has recently been reevaluating its network integration and managed network services portfolio targeting small and medium businesses. It is already adept a network architecture and design services, emphasizing the kinds of massive migrations required by mergers, acquisitions, and deregulation. In addition, GTE offers project management, software integration, technology deployment, education and training, maintenance and repair, and network management services.

While BANI has been active in trying to entice nationwide accounts with the promise o letters of agency and other means to guarantee service in areas of the United States beyond their own local territory, its regional limitations have been the primary reason why BANI, and ILECs in general, have had difficulty competing with other network service providers in the network integration space. The combination of long-distance opportunities and the addition of GTE's other local markets will certainly add a new dimension to the ability of BANI to compete with the IXCs and with those integrators that have a nationwide footprint. In fact, the Yankee Group believes that the combined capabilities of Bell Atlantic and GTE could make the new company emerge as a formidable player, assuming a smooth plan for merging the diverse organizations.

VII. Regulatory Issues

Indeed, we expect that this deal will receive quite a bit of scrutiny not unlike many of the recent ones between RBOCs (e.g., SBC and Ameritech). After the merger is approved by shareholders, it will need to be reviewed by state regulatory agencies in GTE's territory as well as by the Justice Department and the FCC. The companies anticipate that the deal should close in the second half of 1999, by which time we fully expect that Bell Atlantic will have gained entry into in-region long distance in New York.

Among the key issues at hand are the overlapping wireless properties, which we have already discussed, some local property issues, and long distance. In fact, on the local side, there are only two markets where both Bell Atlantic and GTE operate as local providers—Pennsylvania and Virginia. This problem is further complicated by the fact that GTE offers long distance in these two markets, something for which Bell Atlantic has yet to receive authority. We expect that unless the new company can get approval quickly it will have to divest itself of the few long-distance customers it serves in these markets. However, this is a small price to pay in the grand scheme of the deal.

Overall, the most significant hurdle Bell Atlantic will face is the elimination of a potential competitor. GTE announced that it intended to expand its local presence outside of its region, and compete against the RBOCs. When GTE formed a CLEC organization after the passage of the Telecommunications Act, it stated its intention to move beyond its traditional markets and compete for high-value customers nationwide.

While GTE has been among the most recalcitrant in opening up its local markets, Bell Atlantic has been viewed as a leader for its efforts in opening its New York marketplace to competitors. In fact, Bell Atlantic referenced the fact that the acquisition of GTE would reduce its exposure to competition. Unlike the fierce head-to-head competition that it is currently experiencing in its New York market, Bell Atlantic sees this as an opportunity to branch out to a number of steady growth markets that are less competitive than its Boston–New York–Washington, D.C., corridor.

While it is evident that Bell Atlantic/GTE will challenge opponents and regulators by claiming its merger will create competition rather than impede it, we believe that regulators will certainly go to any lengths to make the duo prove their case. Despite the concessions that we expect both sides will have to make, the precedent has been set. By allowing the previous mergers to pass, regulators must allow other competitors to compete on the same playing field, something that regulators probably weren't anticipating as an aftermath of the Telecommunications Act.

VIII. Conclusion

In spite of Wall Street's cool reception to the deal, we believe that the marriage of Bell Atlantic and GTE was the best choice for both companies. The combined assets will allow the new company to survive and thrive in a market that is quickly requiring a national rather than a regional presence. The principal players in this deal expect that it will take between 12 and 18 months to complete, by which time the competitive landscape will likely have changed. The challenges facing this new player include not only integrating networks and corporate cultures, but also integrating the changes taking place in the market.

Is there any end in sight to this merger madness? We anticipate that further consolidation will occur among both wireline and wireless carriers. There is talk of BellSouth joining forces to create a "Bell East," which would create a formidable competitor to SBC, presently on its way to becoming a "Bell West." But still, many other prime acquisition candidates exist among new and emerging wireless and wireline carriers. While a number of wireless players have already been mentioned as potential acquisition targets, there are still a number of prime targets on the CLEC side. Indeed, some top CLEC candidates with integrated service portfolios and built-out networks, including Intermedia, ICG, and e-spire, look ripe for the picking.

While carriers have tended to merge within industry segments (e.g., WorldCom/MCI, SBC/Ameritech/SNET/PacTel), this trend will soon need to evolve to the next step. There is a natural limit to how long these carriers can continue to merge within their own industry segment. Either these carriers will become large enough to develop the product lines and capabilities necessary to satisfy customer expectations, or carriers will need to progress to the next step by crossing industry boundaries. No one can predict the success of this deal, but we can predict that the greatest profits from these mergers will be made by those who paint the service trucks!

Further Reading

"AT&T and TCI: Fortune Favors the Bold," *Yankee Group Report, Consumer Communications*, Vol. 15, No. 14, July 1998.

"SBC/Ameritech Merger: And Then There Were Four," *Yankee Group Report, Telecommunications*, Vol. 13, No. 8, May 1998.

"First Quarter Wireless Industry Update: Consolidation in the Midst of Competition," *Yankee Group Report, Wireless/Mobile Communications North America*, Vol. 6, No. 10, April 1998.

"AT&T CLECts Its Local Business Entry Strategy," *Yankee Group Report, Telecommunications*, Vol. 13, No. 2, January 1998.

"SBC from Sea to Shining Sea," *Yankee Group Report, Telecommunications*, Vol. 13, No. 1, January 1998.

"Grow The Enterprise: GTE Goes National," *Yankee Watch Telecommunications*, Vol. 12, No. 4, June 1997.

"Bell Atlantic and NYNEX: Opportunities Gained and Lost," *Yankee Watch Telecommunications*, Vol. 11, No. 9, May 1996.

BEFORE THE
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:)
)
TELECOMMUNICATIONS POLICY)
OPEN MEETING)
)
)
)

Chicago, Illinois

October 8, 1998

Met pursuant to notice.

BEFORE:

CHAIRMAN RICHARD MATHIAS

COMMISSIONER RUTH KRETSCHMER

COMMISSIONER TERRY HARVIL

COMMISSIONER RICHARD KOLHAUSER

COMMISSIONER BRENT BOHLEN

APPEARANCES:

MR. MARK J. MATHIS,
Sr. V.P. Regulatory, Bell Atlantic;

MR. GEOFFREY C. GOULD,
V.P. Government & Regulatory Affairs, GTE;

MR. ED WASHINGTON II,
Bureau Chief, Public Utilities Board,
Office of General Counsel;

MS. ELLEN D'AMATO,
V.P. State Regulatory Affairs for Sprint;

MR. WILLIAM DAVIS,
Chief Regulatory Counsel,
Law and Governmental Affairs for AT&T;

MR. DAVID PORTER,
V.P. Regulatory Economics for MCI/WorldCom.

SULLIVAN REPORTING COMPANY, by
Jennifer Natale, CSR

I N D E X

reject this merger? Sure it is, because you're not just saying no. But you're saying what it would take to approve the merger. So it's not a flat out disapproval. It's disapproval but once you've shown us what we're requiring you to do, then we'll entertain it; and if you meet our standards, we'll approve it.

COMMISSIONER KRETSCHMER: Thank you.

CHAIRMAN MATHIAS: Commissioner Bohlen.

COMMISSIONER BOHLEN: I want to follow up on Commissioner Kolhauser's question about the competition in Chicago.

I'm assuming that Chicago is the only Illinois city on the list of 21?

MR. GOULD: Yes, that's correct.

COMMISSIONER BOHLEN: And, Mr. Gould, you indicated what the merger would do for GTE in terms of the competition and the coming competition in Chicago.

I'm curious as to what the merger does for Bell Atlantic in terms of coming to competition in Illinois. It seems to me that

Illinois -- or Chicago would be attractive to Bell Atlantic for local competition without GTE.

MR. MATHIS: Well, right now we're here in Chicago. We've got 300 customers. It hasn't been much of an entry as reseller of long distance.

What GTE brings to the table is they've got this Internet backbone network. It's got a point here in Chicago. They've got real-life facilities. They know Illinois, we don't.

Those are the two things we think that they bring to the table here in Illinois that we don't have. And we think that putting the partnership together of our customers, the example I gave of Marriott with their knowledge of Illinois and their Internet backbone, is something that at least offers the possibility of us being able to be successful in Chicago.

And that's why I sort of -- you know, I listened to the discussion here today from our friends down the table. I'm sort of struck by two points. One is they say that we didn't live

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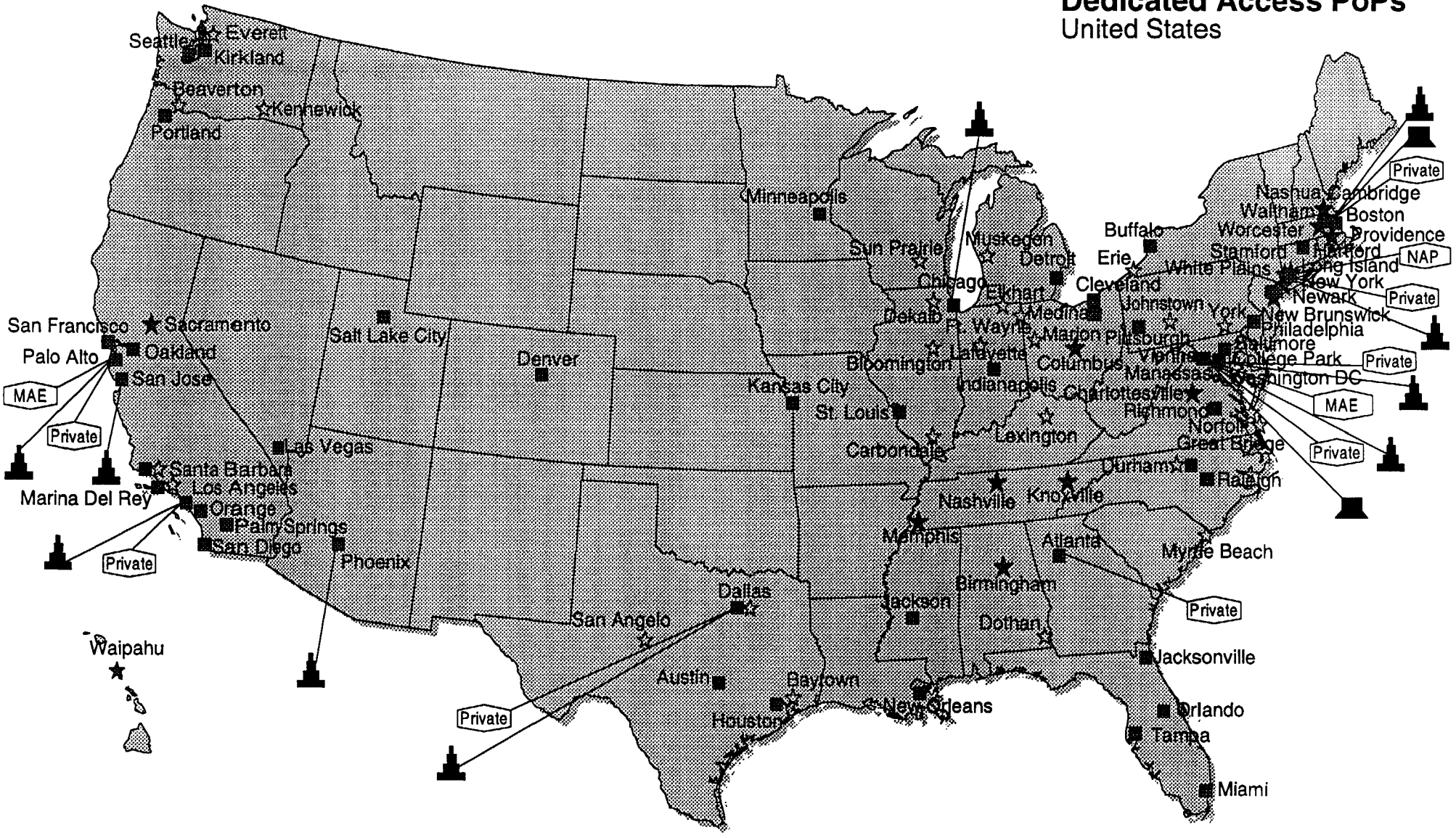
United States



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- Frame Relay PoP
- Peering Point
- Data Center
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United States

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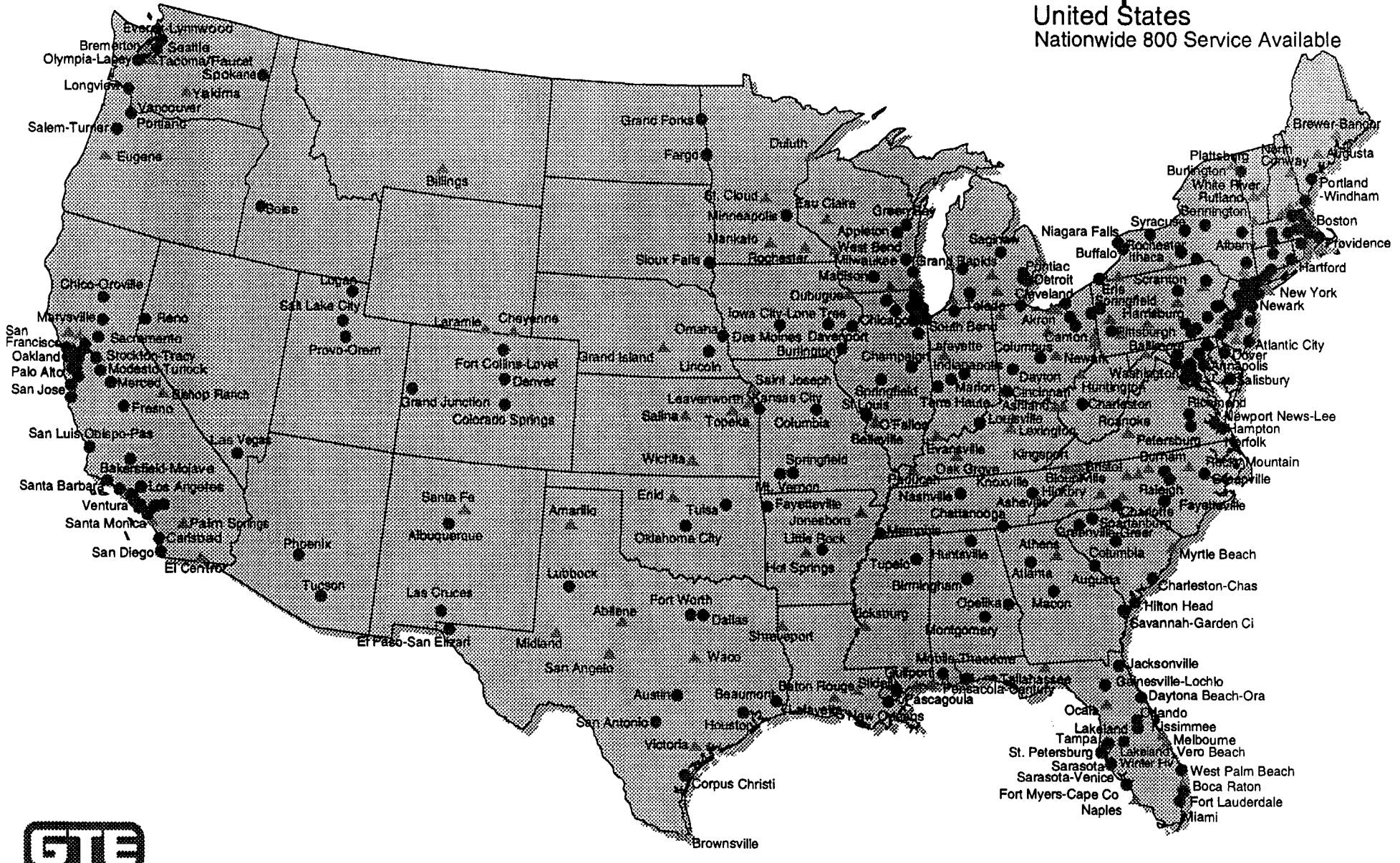

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Not all local access points are labeled. See full local access point list.

● Local Access Point

△ Future Local Access Point

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Map represents intended buildout of the GTE Internetworking DiaLinx℠ network by end of 1998.

GTE Internetworking

Dial-Up Access
United States

Alabama
- Birmingham
- Huntsville
- Mobile-Theodore
- Montgomery
- Opelika

Arkansas
- Fayetteville
- Hot Springs
- Jonesboro
- Little Rock

Arizona
- Phoenix
- Tucson

California
- Anaheim
- Bakersfield-Mojave
- Bishop Ranch
- Canoga Park
- Carlsbad
- Chico-Oroville
- Concord
- Covina
- El Centro
- Fairfield
- Fremont
- Fresno
- Fullerton
- Inglewood
- Laguna Beach
- Long Beach
- Los Angeles
- Marysville
- Merced
- Modesto-Turlock
- Monterey
- Napa
- Oakland
- Ontario
- Palm Springs
- Palo Alto
- Rialto
- Sacramento
- San Diego
- San Francisco
- San Jose
- San Luis Obispo-Pas
- San Mateo
- San Rafael
- San Ramon
- Santa Ana
- Santa Barbara
- Santa Clarita

California - continued
- Santa Cruz
- Santa Monica
- Santa Rosa
- Stockton
- Stockton-Tracy
- Thousand Oaks
- Ventura
- Walnut Creek
- Woodlawn Hills

Colorado
- Colorado Springs
- Denver
- Fort Collins-Lovel
- Grand Junction

Connecticut
- Bridgeport
- Gales Ferry-Water
- Hartford
- New Haven
- Stamford

Delaware
- Dover
- Wilmington

District of Columbia
- Washington DC

Florida
- Boca Raton
- Daytona Beach-Ora
- Fort Lauderdale
- Fort Myers-Cape Co
- Gainesville-Lochlo
- Jacksonville
- Kissimmee
- Lakeland
- Lakeland-Winter Hv
- Melbourne
- Miami
- Naples
- Ocala
- Orlando
- Pensacola-Century
- Sarasota
- Sarasota-Venice
- St. Petersburg
- Tallahassee
- Tampa
- Vero Beach
- West Palm Beach

Georgia
- Athens
- Atlanta
- Augusta
- Macon
- Savannah-Garden Ci

Idaho
- Boise

Illinois
- Belleville
- Champaign
- Chicago
- DeKalb
- Downers Grove
- Evanston
- Hinsdale
- Joliet
- Kankakee
- Lansing
- Libertyville
- Northbrook
- O'Fallon
- Rock Island
- Rockford
- Rockford-Loves Pa
- Schaumberg-Roselle
- Schiller Park
- Springfield
- Sycamore
- Tinley Park
- Waukegan

Indiana
- Evansville
- Indianapolis
- Lafayette
- Marion
- South Bend
- Terre Haute

Iowa
- Burlington
- Davenport
- Des Moines
- Dubugue
- Iowa City-Lone Tree

Kansas
- Leavenworth
- Salina
- Topeka
- Wichita

Kentucky
- Ashland
- Lexington
- Louisville
- Oak Grove
- Paducah

Louisiana
- Baton Rouge
- Lafayette
- New Orleans
- Shreveport
- Slidell

Maine
- Augusta
- Brewer-Bangor
- Portland-Windham

Maryland
- Aberdeen
- Annapolis
- Baltimore
- Bel Air
- Columbia
- Frederick-Burkitts
- Salisbury
- Silver Spring
- Waldorf

Massachusetts
- Amherst
- Amherst-Northamp
- Billerica
- Boston
- Brockton-Middlebo
- Dedham
- Fall River
- Falmouth
- Framingham
- Groton
- Lawrence
- Lexington
- Lowell
- Lynn
- Manchester
- Marshfield
- Plymouth
- Springfield
- Taunton
- Worcester

Michigan
- Benton Harbor
- Detroit
- Grand Rapids
- Jackson
- Kalamazoo-Portag
- Lansing
- Muskegon
- Pontiac
- Port Huron
- Saginaw
- Southfield
- Warren

Minnesota
- Duluth
- Mankato
- Minneapolis
- Rochester
- St. Cloud

Mississippi
- Gulfport
- Pascagoula
- Tupelo
- Vicksburg

Missouri
- Columbia
- Kansas City

Missouri - continued
- Mt. Vernon
- Saint Joseph
- Springfield
- St Louis

Montana
- Billings

Nebraska
- Grand Island
- Lincoln
- Omaha

Nevada
- Las Vegas
- Reno

New Hampshire
- Durham
- Manchester
- Nashua
- North Conway
- Peterborough
- Portsmouth

New Jersey
- Atlantic City
- Cherry Hill
- Elizabeth-Plainfield
- Ewing
- Hackensack
- Mahwah
- Marlton
- Mercerville
- Morristown
- Mt. Holly
- New Brunswick
- Newark
- Paterson
- Pennsauken
- Princeton
- Red Bank
- Riverton
- Toms River
- Unionville
- Vineland

New Mexico
- Albuquerque
- Las Cruces
- Santa Fe

New York
- Albany
- Armonk
- Binghamton-Endico
- Brooklyn
- Buffalo
- Corning
- Deer Park
- Hempstead
- Islip
- Ithaca
- Jamestown

New York - continued
- New Windsor
- New York
- Niagara Falls
- Plattsburg
- Poughkeepsie-Red H
- Rochester
- Syracuse
- Utica-Rome
- White Plains

North Carolina
- Asheville
- Burlington
- Charlotte
- Durham
- Fayetteville
- Gastonia
- Greensboro
- Greenville
- Hickory
- Kannapolis
- Raleigh
- Rocky Mountain
- Winston-Salem

North Dakota
- Fargo
- Grand Forks

Ohio
- Akron
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- Cincinnati
- Cleveland
- Columbus
- Dayton
- Elyria
- Lorain
- Mansfield
- Newark
- Springfield
- Steubenville
- Toledo
- Warren
- Youngstown

Oklahoma
- Enid
- Oklahoma City
- Tulsa

Oregon
- Eugene
- Portland
- Salem-Turner

Pennsylvania
- Allentown-Emmaus
- Altoona
- Bethlehem-Bangor
- Butler
- Camp Hill-Cleversb
- Erie

Pennsylvania - continued
- Greensburg
- Harrisburg-Hbg
- Hatboro
- Johnston
- Lancaster-Union
- Norristown
- Philadelphia
- Pittsburgh
- Reading-West Readi
- Scranton
- Springfield
- State College
- Swarthmore
- Wilkes-Barre
- York-Hanover

Rhode Island
- Newport
- Providence

South Carolina
- Charleston-Chas
- Columbia
- Greenville-Greer
- Hilton Head
- Myrtle Beach
- Spartanburg

South Dakota
- Sioux Falls

Tennessee
- Blountville
- Bristol
- Chattanooga
- Kingsport
- Knoxville
- Memphis
- Nashville

Texas
- Abilene
- Amarillo
- Austin
- Beaumont
- Brownsville
- Corpus Christi
- Dallas
- El Paso-San Elizari
- Fort Worth
- Houston
- Lubbock
- Midland
- San Angelo
- San Antonio

Texas - continued
- Victoria
- Waco

Utah
- Logan
- Provo-Orem
- Salt Lake City

Vermont
- Bennington
- Burlington
- Rutland
- White River

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- Janesville
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- West Bend

Wyoming
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List represents intended buildout of the GTE Internetworking DialLinx℠ network by the end of 1998.

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COPY

BEFORE THE PUBLIC SERVICE COMMISSION OF WEST VIRGINIA

CASE NO. 92-0347-SWF-CN

WORLDCOM, INC.
Petition for Consent and Approval to
Acquire All Outstanding Shares of Stock
of MCI Communication Corporation.

TRANSCRIPT OF PROCEEDINGS had or testimony adduced at a hearing held in the above-styled case, taken pursuant to notice, on the 25th day of June, 1998, commencing at 9:30 a.m. and concluding at 5:25 p.m., before the Public Service Commission, in the Howard Cunningham Hearing Room, Charleston, West Virginia, before Pamela Pauley, Court Reporter and Notary Public.

VOLUME I

BEFORE: CHARLOTTE LANE - CHAIRMAN

RICHARD FRUM - COMMISSIONER

OTIS CASTO - COMMISSIONER

Connie Doughty DeMuth & Associates

Certified Court Reporters
Post Office Box 701
Dunbar, West Virginia 25064

(304) 766-8708

APPEARANCES

On behalf of STAFF:

STEVEN HAMULA, ESQUIRE
201 Brooks Street
Charleston, West Virginia

On behalf of WORLDCOM, INC.:

ROBERT R. RODECKER, ESQUIRE
P.O. Box 3717
Charleston, West Virginia 25337

JEAN L. KIDDOO, ESQUIRE
CATHY COOPER, ESQUIRE
Swidler & Berlin
3000 K Street, N.W., Suite 300
Washington, D.C. 20007-5116

On behalf of MCI COMMUNICATIONS CORPORATIONS:

ANDREW S. ZETTLE, ESQUIRE
Huddleston, Bolen, Beatty, Porter & Copen
Post Office Box 2185
Huntington, West Virginia 25722

JAMES R. SCHELTEMA, ESQUIRE
MCI Telecommunications Corporation
1133 19th Street, N.W., Room 1138
Washington, D.C. 20036

On behalf of GTE:

THOMAS N. McJUNKIN, ESQUIRE
Jackson & Kelly
1600 Laidley Tower
Post Office Box 553
Charleston, West Virginia 25322

MARY JEAN FELL, ESQUIRE
BERNARD A. NIGRO, JR., ESQUIRE
Collier, Shannon, Rill & Scott, PLLC
3050 K Street, N.W.
Washington, D.C. 20007

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THE WITNESS: Thank you.

(Witness excused)

CHAIRMAN LANE: Next witness.

MS. KIDDOO: I think it's Ms. Covey, Madame Chairman.

MR. NIGRO: GTE would like to call Ms. Debra Covey.

(Witness sworn)

THEREUPON

DEBRA R. COVEY

was called as a witness and, after being first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION BY MR. NIGRO

Q Ms. Covey could you state your full name for the record, please?

A Debra, D-E-B-R-A, R. Covey, C-O-V-E-Y.

Q What is your current position at GTE?

A Vice President of Market Solutions for GTE Communications Corporation.

Q Prior to joining GTE where were you employed?

A I was employed by Sprint for 11 years before coming to GTE in 1995 and Southwestern Bell for five years prior to that.

Q While at Sprint what were your responsibilities?

A I was responsible for at various things network design, engineering, systems development, vendor management, contract negotiations and compliance, and so forth.

Q On March 3, 1998, did you cause to file a direct testimony to this proceeding that has been marked as GTE Exhibit Number 2?

A Yes, I did.

Q Do you have any corrections or changes to make to that testimony?

A I have corrections to make at the present time to the title and address change. I don't know if this important or not. They're different. They're right on the rebuttal and incorrect on the direct. Do I need to correct that?

MR. NIGRO: Your Honor, would you like Ms. Covey to go ahead and correct that. It's not in her direct testimony and it's in her rebuttal.

CHAIRMAN LANE: It's in the rebuttal?

MR. NIGRO: Yes.

CHAIRMAN LANE: The corrections?

THE WITNESS: Yes.

CHAIRMAN LANE: Then that's sufficient.

BY MR. NIGRO:

Q Would you give the same answers as you gave

in your prefiled testimony marked as GTE Exhibit 2 if you were asked those same questions today?

A Yes.

Q On April 18, 1998, did you cause to be filed rebuttal testimony in this proceeding that as been marked as GTE Exhibit Number 3? Excuse me, June 18, 1998?

A Yes.

Q Do you have any corrections or changes to make to that testimony?

A No, I don't.

Q Would you give the same answers that you gave in your prefiled testimony marked as GTE Exhibit Number 3 if you were asked the same questions today?

A Yes.

Q At this time I would like to offer into evidence GTE Exhibits 2 and 3.

CHAIRMAN LANE: Those may be so marked and admitted into the record.

(WHEREUPON, the documents referred to were duly marked for identification as GTE Exhibits 2 and 3 and were received into evidence.)

MR. RODECKER: This is just a matter of

housekeeping and I'm sure I understand what's happening, but I'm going to make sure for the record. My documents indicate that the rebuttal testimony of Ms. Covey was faxed to the Commission on June 19th and the original was actually filed on the 22nd. I believe Mr. Nigro referred to June 18th and I'm wondering if there is a different document.

MR. NIGRO: There is not. I believe we are referring to the same testimony. I apologize.

MR. MCJUNKIN: It was faxed on the 18th, I believe.

MR. SCHELTEMA: Well, mine shows the 19th and --

MR. MCJUNKIN: It's the same document, Bob.

MR. RODECKER: Okay. Good.

CHAIRMAN LANE: Repeat the question again.

MR. NIGRO: As I discussed previously, we have just a couple of questions relating to Mr. Gates' direct testimony and your rebuttal testimony. Ms. Fell is going to ask those questions.

DIRECT EXAMINATION BY MS. FELL

Q Okay. Ms. Covey, do you have a copy of Mr. Gates' testimony with you?

A Yes, I do.

Q And have you reviewed that testimony?

A Yes, I have.

Q Starting on page five of his testimony where he reports to respond to Doctor Harris on talking about efficiencies to be generated from the merger and we'll go on from there. Do you have any response to that testimony?

A I think I can probably answer several questions at once if I just speak generically about it. If that's okay, it will save some time. There are several places in the document that Mr. Gates speaks to efficiencies that will be realized in this merger and I agree with him that there are efficiencies to be gained at different levels, depending on which piece of the company you're looking at here. I think those are accurate statements. I think the question comes in to play as what is the result of those efficiencies? Are there gains to be made that benefit the end-users in the state of West Virginia? Are there gains to be made to benefit the shareholders? I think they've made that very clear here. Are there gains to be made that benefit the wholesale markets and resale markets, are there services to be made available? I don't have any direct information or indirect information that tells me that that's the case.

Are there impacts to any other competitors

that are here in the industry, other impacts to -- what the exchange companies -- if you go through the document and reference all the places were savings or efficiencies are spoken to, there are claims of efficiencies that will be honored, but there is no explanation of what the efficiencies are. What scale they're on, what the end result will be. And who the beneficiary is other than a stockholder. The fact that there is and efficiency that will somehow flow through the value of the company. Which is a fair statement. But in order for that value to flow through, there is some action that has to occur and my questions really revolve around part of those actions are going to occur because as the customer in this case, I haven't been, obviously, made privy what those plans are and it presents quite a bit of concerns.

If you look no page five to page six where cost savings are considered. It says for the combined company in West Virginia if the merger is approved, again, it says we've done no West Virginia's specific studies to find cost savings significant but it's clear the merger will benefit combine company and consumers. I don't believe it's fair at all that there is a plan and there is no statement of what that benefit will be, and to me it's very easy to say there

is a benefit, but the proof is in the pudding. And I would question what the value of that statement is without some part of clarification to go with it. On page seven --

MR. SCHELTEMA: Your Honor, excuse me. I object to this entire line. Mr. McJunkin stated initially that she would be addressing "direct" portions of the testimony. Clearly, from page five on it's referring directly to Mr. Harris' direct testimony. This is not Mr. Gates' direct testimony. This is, in fact, rebutting positions taken by Doctor Harris. This is, in fact, close surrebuttal.

MS. FELL: If I may, Madam Commissioner. In another jurisdiction, Doctor Harris spent some time on his testimony analyzing efficiencies. He did not do that in his testimony in West Virginia and in response to his non-addressing the efficiencies in West Virginia, Mr. Gates has attempting his so called rebuttal testimony, has spent the six to seven pages talking about the efficiencies in West Virginia. All we're asking is that Ms. Covey have a chance to respond to them.

MR. SCHELTEMA: Your Honor, Mr. Gates' testimony starts out by even referencing the page in the direct testimony that Doctor Harris makes his

position. I mean, I really have to spend -- and object that this is surrebuttal and not addressing a new direct position at all.

CHAIRMAN LANE: Now, what we see before us today is somewhat complicated and has a lot of ramifications and the Commission isn't really interested in getting into an argument whether something that is rebuttal, surrebuttal,direct or indirect. We're interested in having some questions answered, so we will move this witness to answer some question.

BY MS. FELL:

Q Okay. Ms. Covey, I believe you were on page seven?

A Yes. Page seven if you -- I was just focusing on several lines instead of going line by line, but in the paragraph that begins on line four, on my copy. There is comments about efficiencies that relate to allowing MCI/WorldCom in office trunking with the ILEC you drop down to line seven. It says the newly available to capacity will be free to the ILECs. I have been in network operations for 20 years and have never seen free capacity in my life. And I would question a comment that says any incapacity is free at any opportunity. I do agree that there are

efficiencies to be gained by putting two large amounts of traffic together that would allow them from an engineering perspective to move from tandem trunks to direct office trunks which would improve their cost position as a carrier, however, I think that the impact of the ILEC is misrepresented here because there are in fact dual trunking required for a period of time because while they move to direct in office trunks the ILEC would be required to install direct in office trunks while there in the tandems still, so the customers there would have to be served. Then they would roll the customers to the direct in office trunks and disconnect the tandem trunks. So there for a period of time you would actually be duel trunking required by the ILEC and, of course, they would have to pay the bill for that. So its not free to anyone.

Additionally, once they abandoned the tandem trunks then the ILEC has a significant number of highway trunks being used by the companies that they have to do something with or they have abandoned facilities which is a capitol cost for them, so that's an impact to the ILEC. Once they move to the direct in office trunks the ILEC has had to over bill for the in office trunks. So while in theory I agree with the concept that they would get an efficiency. I disagree

with the simplicity of the statement that says there is frequent aspects with the ILEC. In fact, capitol employment would have to be made in the local company to be duel facilities there for awhile and then at the end of the day when all the transitions are made there would abandoned facilities at the tandem. Granted another carrier could come in and perhaps purchase those facilities. Perhaps the question that needs to be asked is if there is wait list of requirements for capacity at the tandem in these offices in West Virginia. And is there a capacity constraint to the tandem? If there is, then it's probably good news. If there's not, then its stranded facilities that someone is going to have to deal with. So I think that is an understatement issue.

If you move on to page eight, again from let's just say line five down to line 12 there is several comments about WorldCom avoiding lease payments for the costs made by the MCI costs. Savings significant sums of money using MCI's network, complaining traffic will accompany to reducing the average cost per minute. Every line includes some mentioned to savings to the company which I think are valid and are good points to the company and to its shareholders. Again, probably two or three questions

here. One would be what is the value to the end users in West Virginia? Are all these savings going to be passed through? I don't think how much is going to be passed through is as important as the fact that is there commitment to pass the savings through. Absolutely, since that is an absolute given in the testimony that there is a savings to be made.

I think the second point in this paragraph is these two companies will put there traffic together and they will save money because of engineering and harmony, but what is the impact to the end user by putting these facilities together? When you think the customers from the WorldCom network which is leased today and move to the MCI network which is a facility based today. So the assumption is on my part. I believe Mr. Porter testified to this. The MCI network would be the network that would remain closer in West Virginia that would be used. Then those customers must be transitioned off of WorldCom. It's not just a notice on the bill that says were going to be moving to MCI. There is actually a process to go through of notification. The customers contact number that they use for customer service, their billing information. All of that will change to MCI records. The customers has went through a big process where they actually

choose WorldCom as there carrier, but now they've moved to MCI. I'm sure they will be given an option if they want to do that or not, but it's up to them if they want to go to MCI. The customers who have dedicated facilities, they may be buying from WorldCom, if there are any and I don't know if there are. But if there are any, they would actually go through a physical move of their service to have it disconnected off the WorldCom location and relocate to an MCI location which involve a short service outage. Not one that would be catastrophic, but one that would, you know, bring a new arm to the business, but for a business that is transmitting data or has an ongoing 24 hour business, it would be a hit in their service. So while all the impacts might be far rushed, I think they need to be realized because there could be impacts to the end-users involved when those transitions occur and even in the best of plans the networks that have been intergraded in the past they are customers who did not have service and this stuff happens so and I don't believe it's a bad thing but it is just something that needs to be realized and recognized and needs to be given thought to. The fact that's not as simple as perhaps it might be portrayed.

If you move on to page nine, again down

around lines 10 and 11, there is again mention of the significant savings and efficiencies by combining traffic on the MCI existing network which goes back to my point that I believe the traffic would be moved to MCI.

Could we just move forward to page 11. There is a question about successful integration of prior networks. I believe Doctor Harris -- the question is and Doctor made a point about successfully interaction as speaks at best, but the response is no. WorldCom has -- there are no difficulties in integrating the networks and there's no support. I've been involved in integrating several networks in several years and its never easy. Your best plan on your best day always has kinks and your best customers always seem to be the one to get impacted. So I think that you should also look at previous acquisitions and previous integrations and exactly what has been integrated and how it has occurred. There are many companies that have been acquired by both of these companies and by other companies in the industry. There are very few companies that have actually performed full integration. Very few companies that have actually combined billing systems, network facilities, network management systems, customer service support. Most of

them are acting independently today even though they are all managed by the same company and their financials are all recorded in an integrated fashion. Many of them are operated in wholly independent function. And I would offer that WorldCom is an example of that and that even the best experts Union Net, for example, those companies that are subsidiaries of WorldCom that are not operationally integrated and in fact function independently today. And so while they all their networks might not be appropriate to fully to integrated, their operations have not been upgraded on a financial level either because I do business with them on a daily basis and new businesses with a different set of people that still work independently in different sets of companies. So I don't think we should over state the success of integration in the past and we should recognize that this would be by far the largest integration that either company has tried to undertake. And we shouldn't minimize how important it would be.

And if we move to page 12, line three through eight, there is a comment about and a supplier for MCI in the same region. I think the region is referred but I think this is in the northwest. I don't believe it applies to West Virginia at all, so I won't speak to

such carriers. The point, I believe, Mr. Gates is trying to make is that there are substitutes who can provide network facilities for me its a switchless reseller and while I agree with them that there are transport providers who can give dark fiber or who can give me reduced rates they don't all the back office support that WorldCom offers. They don't have the billing systems. They don't have the pick processing to convert customers. They don't have the wholesale accounts support at the same level and the same depth and so they are good substitute transport providers perhaps, but they're not network service providers to give me a turnkey solution.

MS. KIDDOO: Ms. Covey.

MS. COVEY: Yes.

MS. FELL: If you wouldn't mind clarifying something. You talked a lot about ILECs and direct and office trunk tandems and I know you are very knowledgeable about how networks were managed and how they are run, but I unfortunately am not quite so knowledgeable so could you bring that -- can you explain it so that a lay person what you're talking about on the direct and office trunking?

MS. COVEY: What was that?

MS. FELL: The direct and office trunking of

the tandems --

MS. COVEY: All right. I'm sorry. The presentation and material says that because of efficiencies WorldCom and MCI will move from tandem to direct and office trunking. Today because of their relative size it may not be cost efficient for them every central office to have a trunk that serves their needs because they may not have enough traffic to justify it. So instead that it's industry practice that you aggregate the facilities at the access tandem of the local company and provide your customers service to that local tandem and the local exchange company takes that service and fibers it out to each end-office so you get more traffic in certain areas and you have more concentration of traffic. Then you separate yourself from the tandem and extend your trunk group all the way in to each end office and that's a cheaper pricing scheme and what it speaks to a carrier has more volume. For example, when you look at AT&T volume in the state, they most likely are direct and office trunk in many locations because they have a lot of volume in this state. By putting the two volumes of WorldCom and MCI together they would enjoy that same amount of requirement and they would extend that facility to the end office. Which makes all the sense in the world is

the correct thing to do from a economic point of view. They will most leave some sort of trunk for that tandem to use for the overflow should the direct end office trunks be full so they don't experience blocking on their network. But they would definitely downsize the trunks that are there and they would be abandoned. Is that what you're looking for?

MS. FELL: Thank you.

MS. COVEY: Again, the on page 15 where you talk about rates. The merger of MCI and WorldCom will not result in an increase in rates and I certainly believe that's true. It would not be competitive behavior at all for them to come in and increase rates, but further I don't think that the testimony goes far enough to speak to the question of what happens to rates. You know they don't go up, staying the same, is certainly is an option as is going down and I think as an end user of wholesale services or as every user in the state, are we going to know -- are the rates going to go down based on the efficiencies explained in the testimony.

MS. FELL: Thank you. At this time we offer the witness for cross-examination.

MS. KIDDOO: Thank you, Madam Chairman.

CROSS-EXAMINATION BY MS. KIDDOO

Q Good afternoon, Ms. Covey. It's nice to see you again. Ms. Covey, I want to first explore with you a little bit about GTE's interest in the impact of this merger on West Virginia, if I might. Now, GTE no longer offers local service as a local exchange carrier in West Virginia does it?

A GTE telephone operations as a local company does not offer local service here, but GTE Communications Corporation our C-LEC, which I am employed by, intends to offer local service here next year.

Q Does it offer service now?

A No.

Q Has GTE Communications obtained certification to operate as a C-LEC in West Virginia?

A I don't think so, no.

Q Has it applied for certification?

A I don't believe so, no.

Q With respect to long distance service, you testified that GTE offers long distance services within the state of West Virginia. GTE does that on a resale basis; is that correct?

A We resale WorldCom One Plus service here, yes.

Q Has GTE, therefore, by saying that you resale

WorldCom services, it's correct than that GTE is not itself invested in any facilities or switching equipment or other investment to provide service on any of its own facility; is that correct?

A Yes. We are a specialist reseller nationwide. We don't have switches or facilities that we own under our name or GTE Long Distance Service anywhere in the United States to include West Virginia. We resale WorldCom's service everywhere.

Q Does GTE offer any other telecommunication services in West Virginia, for example, cellular or PCS services or paging services?

A I'm not familiar with all the service locations that offer wireless service. But as C-LET we will offer bundled services, wireless paging, internet, local, but today we currently offer 800 calling cards, Number One Plus LD service and we offer a service that's called 800 pin, just like a call to the 800 service where you can route your 800 number through to a specific location.

Q Are all of those services that you just mentioned resold WorldCom services?

A No.

Q What services are not resold WorldCom services?

A The 800 pin service is sold as a stand alone product and is provided by IXC Communications.

COURT REPORTER: Provided by who?

MS. COVEY: IXC Communications and the 800 calling cards are provided by our own platform which is owned entirely and operated by GTE Card Services.

BY MS. KIDDOO

Q Who provides you the transport services who's network facilities you use?

A The point to point transport is provided by MCI. The switching is provided by another company that we switch from providing service.

Q Does GTE offer private line services?

A No. We offer private line services in some locations. I'm not aware that we have private line customers in West Virginia.

Q If you had private line customers that sought your services in West Virginia would you commission them to?

A Yes, we would.

Q And how would you do that?

A It depends on the customer and what services they wanted. For the time a number of our services are provided by Sprint, but we do have private line customers who use other carriers of their choice.

Q So basically is it correct to characterize what you're saying is that what you purchase from WorldCom for resale is basic One Plus type of long distance service?

A Yeah.

Q What else is there?

A What I resale from -- what I purchase from WorldCom -- did you say purchase or resale?

Q Purchase for resale?

A Okay. I purchase for resale one plus service. Included in that purchase, however, is the provision of all the back office support because from the carriers that we question I don't get that same back office service. I buy very simple stand along products so the relationship between myself and IXC, myself and Sprint, myself and MCI, are radically different than our relationship with WorldCom.

Q Why aren't you purchasing those services from WorldCom?

A Well, not all of the services are available from WorldCom.

Q Are any of the services available from WorldCom?

A WorldCom does have a calling card platform. They do not have an 800 pin in process and they do have

private lines.

Q Why aren't you purchasing private lines and the calling card platform services?

A The prices offered on the private line product from WorldCom are not competitive and we are, in fact, renegotiating are private line rates with them as we speak so that we can offer those services through them and intend to move a couple of thousand private lines to them as soon as we can.

Q Good to here it. Now, as far as your services in West Virginia, are you advertising or promoting your services in West Virginia? Particularly your intrastate West Virginia services?

A We don't have advertising specifically geared to intrastate traffic in West Virginia nor in any other state with the exception of one I believe. And all of our long distance advertising at this time is done on a nationwide level under our GTE brand which is part of our strategic plan which is to align with the GTE brand to extend that brand into other states where we don't have local services. So our intent for the first two or three years of our LE operation will really rely on national advertising and once we feel that we've got a little more brand name recognition in the states that we have not been in recently as a local company or ever

in some cases, then we would come back in to those states and directly market directly advertise. So assuming that we stay on our time line hopefully you'll see those kinds of advertisements real soon.

Q Now, is it fair to say that GTE's marketing focus for long distance, is focused primarily at least initial on areas where GTE's brand name is well known? For example, it's existing local exchange territories?

A It's fair to say that I think we defiantly trade off of the strength of the brand name which I think I just said earlier is that our national brand campaign would obviously be more recognized in areas where we have an actual brand, where the brand has a bill that goes to consumers, so we target most of our consumer sales right now in areas where our brand is. We are moving 100 miles out from the brand, 200 miles out from that brand in an effort to expand our scope and expand our bravery into our small business customers. We are actually marketing in areas where the GTE brand is not known. We're doing face to face sales. So it's a little bit easier to have a discussion about who we are and what we're trying to do when you are face to face with someone verses over the telephone or on a TV add.

Q Does GTE have any employees in West Virginia?

A I don't believe -- well, I know that we don't particularly in the communications corporation. I can't really testify about other affiliates.

Q How many pre-subscribed access lines does GTE currently serve in West Virginia?

A The most recent count I have is that we have is we have 148 accounts representing 218 lines.

Q The reason for that is that there are some multiple lines?

A Yes.

Q So the 148 then --

A 218.

Q Okay. Did you have an opportunity to look at the FCC pre-prescribed line survey numbers that were introduced in Mr. Porters testimony?

A No.

(WHEREUPON, this portion of the transcript has been retracted as being confidential material.)

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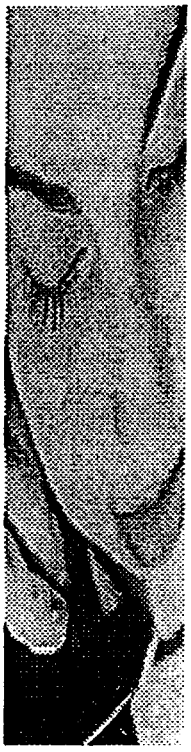

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SPECIAL OFFER

Infospeed DSL Internet Packages - Monthly Rate

Personal Infospeed (Infospeed 640 Kbps & Bell Atlantic.net)	$59.95
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Infospeed 640 Kbps	$39.95
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One Time Charges

One-time charges include the following:

Service Connection Charge:	$99.00
DSL Modem:	$325.00
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Please note that if you do not already have an Ethernet card, you will need to purchase one from Bell Atlantic or any other retail provider of Ethernet cards.

Special Offer

For customers subscribing to a Bell Atlantic.net DSL package for twelve months, the DSL modem is only $99 and the Ethernet card* and turnkey home installation are free!
*Offer available on selected Ethernet cards only.

If you're currently a Bell Atlantic ISDN customer, click here to find out about out ISDN Rewards upgrade program.

The levels of Infospeed DSL service available to you will vary based on your distance from your Bell Atlantic Central Office. Infospeed DSL is not available in all areas.

ISDN Rewards

Bell Atlantic will be "technology-change proofing" its high speed services by introducing an **ISDN Rewards** program concurrent with the launch of its Infospeed product line. Once Bell Atlantic Infospeed service is available in an area, Bell Atlantic residential customers who have purchased an ISDN modem from Bell Atlantic will be guaranteed an ADSL modem from the company at no additional charge when they subscribe to our Bell Atlantic.net DSL offering with a 12-month commitment.

Bell Atlantic residential customers who prefer to use another Internet provider will receive 1/2-off Bell Atlantic's normal ADSL modem price when they purchase an ADSL modem from Bell Atlantic. So, customers who want high-speed Internet access need not wait until ADSL-powered Infospeed is available in their area. Where Bell Atlantic Infospeed is not available or is not compatible with a person's line, customers can still order Bell Atlantic ISDN service for high-speed Internet access. Bell Atlantic ISDN service is available - today - to nearly 20 million households in the mid-Atlantic region and the Northeast. ISDN can provide Internet connections that are more than four times faster than traditional 28.8 Kbps modems. Nearly half of the one million ISDN lines installed in the United States are used by Bell Atlantic customers.

Purchase of InfoSpeed DSL not required. Limit one per household. ISDN modem must have been purchased from Bell Atlantic's Residential ISDN Center in Norfolk, VA or from Bell Atlantic's authorized sales agent IDRC or Telamon. Return of the ISDN digital modem invalidates this offer. Terms and Conditions associated with this program are subject to change.

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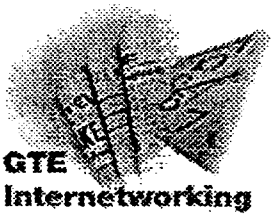

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GTE Internetworking Press Release

GTE to Offer Ultra-Fast Internet Access; Nation's Largest Deployment of Asymmetric Digital Subscriber Line (ADSL) Service to Roll Out in Two Phases Starting this June in Current Market Trial Locations; Fujitsu Network Communications Selected as Supplier of High-Speed Internet Access Equipment

Dallas --April, 13 1998-- GTE today announced that it will begin offering consumers, businesses, universities and Internet service providers "always-on" high-speed Internet access and remote office connectivity service that helps boost connection speeds to the Internet at rates up to 50 times faster than conventional modems.

Beginning in June, upon regulatory approval, GTE Network Services, the incumbent local exchange carrier unit of GTE Corp., will offer network-based asymmetric digital subscriber line (ADSL) service in approximately 300 central offices in portions of 16 states, creating the nation's largest deployment of ADSL. To provide the service, GTE will install ADSL equipment supplied by Richardson, Texas-based Fujitsu Network Communications, Inc. and digital subscriber line partner Orckit Communications Ltd.

In the first of two phases, GTE will convert its current ADSL trials into broad-market deployment, enabling customers in portions of Beaverton, Ore., Durham, N.C., West Lafayette, Ind., and Redmond and Kirkland, Wash., to access the World Wide Web at speeds up to 1.5 megabits per second (Mbps). During the second half of the year, GTE plans to offer ADSL service in no less than 30 additional market clusters in California, Florida, Hawaii, Illinois, Indiana, Kentucky, Michigan, Missouri, North Carolina, Ohio, Oregon, Pennsylvania, Texas, Virginia, Washington and Wisconsin. (Editor's Note: See attached list of markets)

"Since launching the industry's first data-oriented ADSL trial, we have strived to develop a simple, friendly and affordable way to revolutionize the way our customers communicate," GTE President Kent B. Foster said. "This new service offering gives Internet users at work, home and school a competitive edge, and paves the way for increased productivity, and vastly improved performance compared to lower-speed modems."

The deployment of ADSL, said Foster, helps enable GTE to offer end-to-end Internet solutions on a broader scale, and is in keeping with the company's overall goal to become a national provider of integrated telecommunications services.

By the end of the year, GTE's central offices in parts of 16 states will be equipped to offer high-speed digital connections to the Internet over existing telephone lines. The availability and timing of ADSL service in

each state will be dependent upon local market conditions, and will not be offered ubiquitously.

The network efficiency of ADSL

ADSL works by connecting a pair of modems to each end of a telephone line, with one modem located in the telephone company's central office and the other at the customer's premises, providing a continuous Internet access rather than traditional dial-up modem connections.

With ADSL, consumers can simultaneously surf the World Wide Web and place telephone calls over the same line. Compared to cable modems, ADSL offers greater flexibility when choosing Internet service providers and network connectivity alternatives. ADSL also delivers dedicated bandwidth from the central office to individual users at their homes or offices unlike cable modems that provide shared bandwidth among a group of users over the same path. Further, GTE has a track record of network reliability which provides an additional advantage to customers interested in higher bandwidth services.

Fujitsu Network Communications selected as ADSL equipment provider

In the central offices where service will be offered, GTE will install Fujitsu's SPEEDPORTTM equipment, developed with its partner Orckit (NASDAQ: ORCTF). In addition, Fujitsu-supplied Orckit modems will be installed on customer premises, providing high-speed Internet and remote access.

"As the leading supplier of fiber-optic transport solutions to local exchange carriers in North America, Fujitsu is very excited about entering the high-speed access market with an innovative service provider like GTE," said George Chase, executive vice president of sales and marketing for Fujitsu Network Communications. "Our SPEEDPORT ADSL system will provide the flexible service solutions that GTE and its customers need to make the most of high-speed Internet access for residential and commercial applications."

An information highway lined with green lights

"Our trial participants have told us loud and clear that their increased need for information requires greater bandwidth and speed. With ADSL, their information highway will be lined with green lights, and they can confidently put their interactive pedal all the way down to the floorboard," said John Appel, president-GTE Network Services. "Our world is becoming more and more digital, and voice, video and data services are converging into a single ubiquitous network. ADSL becomes the 'last mile' or local loop enabler that helps deliver a new realm of multimedia content and enhanced Internet protocol services to customers."

Pending regulatory approval, GTE plans to offer several ADSL service packages featuring various transmission speeds ranging from 256 kilobits per second (kbps) to 1.5 megabits per second (Mbps). For comparison, a 2 1/2-minute movie clip of Superman (8.8 megabytes) would take 35 minutes to download using a 33.6 kbps modem, yet less than 47 seconds using a 1.5 Mbps ADSL modem. Likewise, an initial downloading of a 50 megabyte interactive game would painstakingly take three hours and 18 minutes with a 33.6 kbps modem, but just 4 1/2 minutes with a 1.5 Mbps connection.

GTE to offer five ADSL service packages

GTE will offer customers month-to-month, multi-year term and volume discount plans with a target monthly price range of $30 to $250, excluding one-time installation, Internet service charges and modem lease. A modem lease rate of about $12 per month is expected, plus a one-time installation fee of $60 or $140, dependent upon whether or not a modem and inside wire are installed at the customer's premises.

The five service packages, excluding Internet service and modem rental, are:

- Bronze -- up to 256 kpbs access for casual Internet or work-at-home users.
- Silver -- up to 384 kbps access for active telecommuters and small business customers with greater bandwidth needs.
- Gold -- up to 768 kbps access for highly active business customers and Internet users.
- Platinum -- up to 1.5 Mbps access for intensive business users and hard-core Internet customers.
- Platinum Plus / Multi-user -- up to 1.5 Mbps access for multiple business Internet users operating from the same local area network.

GTE also plans to offer customers high-speed ADSL with Internet access service, for approximately $60 a month through a relationship with GTE Internetworking, the Internet unit of GTE Corp. The company also intends to develop high-speed ADSL and Internet access service packages with other Internet service providers.

SPEEDPORT(TM) system uses industry-standard DMT technology

The SPEEDPORT system, with its core DSL technology provided by Fujitsu partner Orckit, consists of modems that will be installed at the customer's home or office, as well as high-powered equipment, known as DSL access multiplexers, to be placed at GTE central office sites. These DSL access multiplexers enable GTE to provide DSL service to a large number of customers at one time by concentrating the customers' data traffic over DS1 lines initially, providing for transparent upgrades to higher-speed backbone facilities as traffic demand warrants.

The SPEEDPORT system uses industry-standard DMT (Discrete Multi-tone) technology. It transmits data using the ethernet IP protocol, and is ATM (Asynchronous Transfer Mode) capable.

GTE's current ADSL market trials in Redmond and Kirkland, Wash., West Lafayette, Ind., Durham, N. C. and Beaverton, Ore. involve more than 1,300 users, including some 1,000-plus Microsoft employees, a small number of Intel employees in Oregon, plus students, faculty and scientists at Duke University Medical Center and Purdue University.

GTE, Fujitsu and Orckit are members of the Universal ADSL Working Group (UAWG), a consortium comprised of industry leading PC manufacturers, telecommunications providers and data networking companies, which earlier this year announced plans to develop a universal and interoperable ADSL standard to spur its deployment to the

mass market.

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About GTE

With 1997 revenues of more than $23 billion, GTE is one of the world's largest telecommunications companies and a leading provider of integrated telecommunications services. In the United States, GTE provides local service in 28 states and wireless service in 17 states; nationwide long-distance service and internetworking services ranging from dial-up Internet access for residential and small business consumers to Web-based applications for Fortune 500 companies; as well as video service in selected markets. Additional information about GTE can be found on the Internet at http://www.gte.com.

About Fujitsu

Fujitsu Network Communications, Inc., designs and manufactures fiber-optic transmission and broadband switching platforms and develops software that allows customers to perform in-service management and monitoring of the telephone network. Its customers include local exchange carriers, interexchange carriers, competitive access providers and cable TV operators, as well as large private networks in North America. Fujitsu Network Communications is part of Fujitsu Limited, a $36 billion global technology leader in computers, communications and microelectronics. Product information is available by calling 800-777-FAST. Its World Wide Web site is at http://www.fnc.fujitsu.com.

SPEEDPORT(TM) is a trademark of Fujitsu Network Communications, Inc.

About Orckit

Orckit Communications Ltd. is a leader in digital subscriber line solutions. Orckit has both core silicon expertise and a wide range of DSL systems and products, including DSLAM systems with ADSL and SDSL, and its HDSL and VDSL product lines. Orckit has alliances with several leading semiconductor companies and telecom equipment providers. For more information, visit Orckit's web site at http://www.orckit.com.

Markets Where GTE Plans To Offer Asymmetric Digital Subscriber Line (ADSL)

Service In 1998:

California: Availability begins in June Long Beach, Norwalk, Ontario, Palm Springs, Redondo, San Bernardino, San Fernando, Santa Barbara, Santa Monica, Thousand Oaks, Victorville

Florida: Availability begins in June Sarasota, St. Petersburg, Tampa

Hawaii: Availability begins in June Hilo, Oahu

Illinois: Availability begins in June Bloomington (Illinois State University), Carbondale (Southern Illinois University), Dekalb (Northern Illinois University)

Indiana: Availability begins in June Elkhart, Fort Wayne, Jasper, West Lafayette (Purdue Univ.), North Vernon, Terre Haute (Indiana St.

University), Valparaiso

Kentucky: Availability begins in June Lexington (University of Kentucky)

Michigan: Availability begins in July Mount Pleasant (Central Michigan University), Muskegon

Missouri: Availability begins in October Columbia (University of Missouri)

North Carolina: Availability begins in June Durham (Duke University)

Ohio: Availability begins in July Athens (Ohio University), Bowling Green (BG University), Norwalk

Oregon: Availability begins in June Beaverton

Pennsylvania: Availability begins in September Erie, Hershey, York

Texas: Availability begins in June Carrollton, College Station (Texas A&M University), Denton, Garland, Grapevine, Irving, Lewisville, Plano, San Angelo, Texarkana

Virginia: Availability begins in July Dahlgren, Dale City, Harrisonburg (James Madison University)

Washington: Availability begins in June Bothell, Everett, Kennewick, Kirkland, Pullman (Washington State University), Redmond, Sammamish

Wisconsin: Availability begins in September Wausau

For More Information Contact:

Bill Kula
GTE Internetworking
phone: 972-718-6924
fax: 972-718-7503
william.kula@telops.gte.com

PACIFIC BELL INTERNET DSL

DSL Internet Access Solutions

Pacific Bell Internet offers several complete solution packages designed to get you or your business on the Internet quickly and easily. Solution packages are available for individuals as well as for customers with a LAN. Both solution packages include the required networking hardware, hardware configuration, and on-site installation -- all at a significant cost savings

Home Pack DSL - *For single workstation customers*

HomePack DSL features include:

- DSL service installation from Pacific Bell (384/128, 384/384 or 1.5/384)
- DSL Basic Internet access from Pacific Bell Internet (1 year term required)
- DSL hardware package from Prime Services Group:
    - DSL modem
    - Splitter
    - Inside Wiring
    - On-site Installation

Total start-up cost for Home Pack DSL - **$299** *($249 without NIC)*

Internet Access Pack DSL - *For customers with a LAN*

Internet Access Pack DSL features include:

- DSL service installation from Pacific Bell (384/128, 384/384 or 1.5/384)
- DSL Enhanced or Business Internet access from Pacific Bell Internet (1 year term required)
- DSL hardware package from Prime Services Group:
    - DSL modem
    - Splitter
    - Inside Wiring
    - On-site Installation

Total start-up cost for Internet Access Pack DSL - **$449*** *($50 more with NIC)*

Total start-up cost for Internet Access Pack DSL with Router - **$1,224*** *($1,274 with NIC)*
(A router is required for local area networks with more than 15 workstations.)

*Pricing assumes Pacific Bell term contract for 384/384 and 1.5/384 speeds. Add $125 without term contract.

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PACIFIC BELL NETWORK

FasTrak℠ DSL

Pricing and Availability

FasTrak DSL Pricing

	Installation price	Monthly price
384/128 Kbps	$125	$59
384/384 Kbps	$125	$99
1.54Mbps/384Kbps	$125	$189

Notes: Price covers the circuit connection from the end user location to the Pacific Bell *FasTrak* DSL network and is in addition to charges for standard phone service.

Equipment and Equipment Installation Pricing

The required equipment for *FasTrak* DSL consists of an Ethernet Network Interface Card (NIC) and the following hardware: DSL modem, splitter, and inside wire. Prices include installation or phone support for one PC.

DSL hardware and Network Interface Card, with full installation	$660
DSL hardware, with full installation	$610

Notes:
Other Equipment Installation pricing options available upon request.

- Network Interface Card pricing for Macintosh computers available upon request.
- Customers may provide their own Ethernet Network Interface Card.
- Modem and splitter vendor: Alcatel.
- All rates, terms, and conditions are subject to change without notice.

Installation and Customer hardware support is provided by Prime Services Group, Inc. In addition to supporting the installation of the Alcatel 1000 ADSL modem, PSG also supports *FasTrak* DSL LAN solutions. With the Alcatel 1000 ADSL modem and a router, customers can establish a small LAN ideal for sharing the bandwidth of *FasTrak* DSL for high speed Internet access. Click here to obtain more information on the Alcatel modem.

Internet Service Provider Pricing

You must have an Internet access account with an Internet Service Provider that supports *FasTrak* DSL. You may select the Internet Service Provider of

your choice. Participating providers currently include:

- BAIS
- Concentric Network Corporation
- Direct Network Access, Inc.
- Flashcom
- InReach
- Orconet
- Pacific Bell Internet
- Sirius
- SlipNet

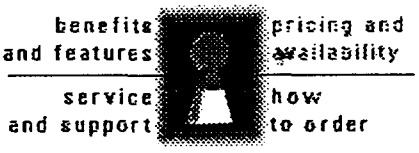
Corporate LAN Connection to The Pacific Bell *FasTrak* Network

Pacific Bell *FasTrak* ATM Cell Relay Service is required for corporate customers with the *FasTrak* DSL remote LAN access application. Please contact your Pacific Bell Account Representative for more information on ATM Cell Relay Service.

Availability

Click here to see if *FasTrak* DSL is available in your area. If you have questions, see the DSL FAQ.

go to
fastrak dsl



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PUBLIC VERSION

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

GTE NEW MEDIA SERVICES, INC., Plaintiff, v. AMERITECH CORPORATION; AMERITECH PUBLISHING, INC.; AMERITECH INTERACTIVE, MEDIA, INC.; AMERITECH INTERACTIVE MEDIA SERVICES, INC.; BELLSOUTH CORPORATION; BELLSOUTH ENTERPRISES, INC.; BELLSOUTH ADVERTISING AND PUBLISHING CORPORATION; INTELLIGENT MEDIA VENTURES, INC; BELL ATLANTIC CORPORATION; BELL ATLANTIC ELECTRONIC COMMERCE SERVICES, INC; SBC CORPORATIONS, INC.; PACIFIC TELESIS GROUP; PACIFIC BELL INTERACTIVE MEDIA; US WEST, INC; US WEST MEDIA GROUP, INC.; US WEST DEX, INC.; NETSCAPE COMMUNICATIONS CORPORATION; and YAHOO!, INC., Defendants.	Civil Action No: 1: 97CV02314

ANSWER, AFFIRMATIVE DEFENSES, AND COUNTERCLAIMS OF DEFENDANTS BELL ATLANTIC CORPORATION AND BELL ATLANTIC ELECTRONIC COMMERCE SERVICES, INC.

Defendants Bell Atlantic Corporation ("BA") and Bell Atlantic Electronic Commerce Services, Inc. ("BAECS") for their answer and affirmative defenses to the Complaint of plaintiff GTE

COUNTERCLAIMS

Counterclaim plaintiff Bell Atlantic Electronic Commerce Services, Inc. ("BAECS"), for its counterclaims against GTE New Media Services, Inc. ("GTE"), alleges upon knowledge with respect to its own actions and upon information and belief as to all other matters:

Nature of the Counterclaims

1. BAECS publishes an electronic directory service (BigYellow) that is available to persons with access to the internet. BigYellow provides telephone listings and addresses, advertisements, and other information about approximately 12 million businesses located throughout the United States. There are scores of services that provide similar information, among them GTE's "SuperPages," and competition among these services is intense. As part of this competition, GTE has secured apparently exclusive hypertext linking arrangements with companies that make SuperPages more readily accessible to internet users. For the purposes of strengthening its competitive position, GTE has also sought

. [REDACTED]

GTE embroiled BAECS in a lawsuit for the purpose of preventing BAECS from securing favorable agreements with advertisers, owners of websites, and potential joint venture partners in competition with GTE.

Parties, Jurisdiction, and Venue

2. BAECS is a Delaware corporation with its principal place of business in Middleton, Massachusetts. BAECS came about in 1997 following the acquisition by BA of NYNEX Corporation. In these Counterclaims, "BAECS" refers to BAECS and its predecessors, Bell Atlantic Electronic Publishing, Inc. and NYNEX Information Technologies Company.

3. GTE is a Delaware corporation with its principal place of business in Dallas/Fort Worth Airport, Texas.

4. This Court has jurisdiction pursuant to 28 U.S.C. § 1367(a) and Fed. R. Civ. P. Rule 13(a). Venue is proper in this District pursuant to 28 U.S.C. § 1391(b) and (c).

Factual Background

5. GTE's SuperPages is an electronic directory information service that provides listings for more than 11 million businesses throughout the United States. Since the introduction

of SuperPages, GTE has secured apparently exclusive arrangements with five websites that are frequently accessed by internet users: http://www.lycos.com, http://www.excite.com, http://www.webcrawler.com., http://www.compuserve.com, and http://www.city.net. Through these arrangements, GTE has positioned itself to become the preferred provider of electronic directory services.

6. GTE has sought to dominate its competitors, including BAECS, through

[REDACTED]

7. In 1997, after BAECS had rejected its demands, GTE

learned that certain popular websites and services -- including without limitation http://www.yahoo.com (owned by Yahoo!, Inc.) -- were considering new arrangements with electronic directory service providers such as GTE and BAECS. Concerned that such popular websites and services might make agreements with providers other than GTE, and thereby stimulate competition, GTE began looking for ways to prevent rivals, including BAECS, from duplicating its own success in acquiring special hypertext linking arrangements.

8. GTE's desire for action against its rivals became particularly acute in 1997 when GTE learned that certain competing providers of electronic directory service (but not BAECS) had reached an agreement pursuant to which these providers were identified on a color "map" available through certain websites, including "Netscape Internet Guide by Yahoo!" GTE contacted BAECS for information about the map, and was informed that BAECS had played no role in its creation. GTE then sought

[REDACTED]

Request for trial by jury

BAECS respectfully requests trial by jury on its counterclaims.

Respectfully submitted,

John Thorne
Robert J. Zastrow
BELL ATLANTIC CORPORATION
1320 North Courthouse Road
8th Floor
Arlington, VA 22201
(703) 974-1600
FAX - (703) 974-0775

Mark C. Hansen
Neil M. Gorsuch
KELLOGG, HUBER, HANSEN,
TODD & EVANS, P.L.L.C.
1301 K Street, N.W.
Suite 1000 West
Washington, D.C. 20005
(202) 326-7900
FAX - (202) 326-7999

Richard G. Taranto
FARR & TARANTO
2445 M Street, N.W.
Suite 225
Washington, D.C. 20037
(202) 775-0184
FAX - (202) 223-8679

Counsel for Bell Atlantic Corporation and Bell Atlantic Electronic Commerce Services, Inc.

November 14, 1997

Charles R. Lee
Chairman and
Chief Executive Officer

GTE Corporation

One Stamford Forum
Stamford, CT 06904
203 965-2000

October 15, 1997

Mr. Bert C. Roberts, Jr.
Chairman
MCI Communications Corporation
1801 Pennsylvania Avenue, N.W.
Washington, DC 20006

Dear Bert:

You and I have talked over the years about the advantages of bringing our two great companies closer together. We both supported the historic Telecommunications Act of 1996, which was designed to sweep away the antiquated separation of markets by geographic and product-line boundaries and to empower companies to bring robust competition to all telecommunications markets. As I survey our industry today, I am more convinced than ever that the combination of our companies would serve the best interests of our shareholders, employees, business partners, and communities, and would achieve the vision of the Telecommunications Act by creating a dynamic competitive force capable of bringing the benefits of competition to all markets and all customers, both nationally and globally.

I am pleased, therefore, to propose that we combine GTE and MCI. Specifically, we are offering $40.00 in cash per share of MCI stock. We would propose, immediately upon execution of a definitive merger agreement, to launch a cash tender offer for the MCI shares. To expedite delivery of consideration to your shareholders, the shares would be accepted for payment, and deposited in a voting trust, upon the receipt of Hart-Scott-Rodino and European antitrust approvals. We would acquire the balance of the shares through a merger which we would be prepared to close as soon as possible following the consummation of the tender offer.

I would like to meet with you as soon as possible and am looking forward to negotiating the contemplated Merger Agreement expeditiously. To facilitate discussions, a draft agreement is being forwarded to you under separate cover. Of course, we recognize that any discussions must be consistent with any legal restrictions you are under. Because I believe so strongly in the opportunities for our combined enterprise, I am willing to explore, as an alternative to all cash, a combination of cash and stock as payment for MCI shares.

We should explore how we can best combine our outstanding teams of employees. I, and our senior team at GTE, would look forward to working with you to develop a management structure for the new organization that includes you, your senior leadership and others in your organization. We have respect and admiration for the very special culture of your organization and are intent on ensuring that it thrives within the new organization. In that regard, I would hope that upon completion of our transaction, you would become a member of the new organization's Board of Directors as a Vice Chairman, as well as joining Kent Foster, Mike Masin and me in the Office of the Chairman. I, and the other directors, would also hope you would join our Board's strategic planning committee. We, of course, are open to the possibility of other members of your Board joining the new organization's Board. In recognition of the importance to our new organization of MCI, its management and its outstanding workforce, we intend the World Headquarters of the combined organization to be located in Washington, DC in conjunction with MCI's current World Headquarters.

The logic and vision of this merger are compelling. The combined enterprise would be well-positioned to compete and grow by offering the broadest range of products and services worldwide. It would generate over $40 billion of annual revenues; serve more than 21 million local and 24 million long-distance lines and 5 million wireless customers; have a global presence in 77 countries; possess one of the world's most advanced global data communications networks; and be led by a combined management team and workforce second to none in our industry. Together, the outstanding talents, capabilities and shared values of our two companies would create a dynamic competitive force in the growing number of markets we serve.

As you know, GTE is committed to pursuit of the promise of the Telecommunications Act. We have entered the long-distance market as a reseller. Recently, we created a competitive local exchange carrier business largely in an effort to attack and compete with the RBOCs in their service areas. Last May, we announced a series of steps to position GTE as a market leader in data communications, the fastest-growing segment of the telecommunications marketplace. These steps included acquiring BBN, a leading provider of end-to-end Internet solutions; establishing a strategic alliance with Cisco to jointly develop enhanced data and Internet services; and purchasing a national, state-of-the-art fiber optic network from Qwest. To serve international markets, we have increased our stake in the Americas and established a significant presence in Asia.

Together, we can achieve the promise of the Telecommunications Act. The fit between our companies is truly extraordinary. Indeed, no two companies in the industry today are more complementary or better situated to expand the availability and breadth of bundled service offerings to local, national and international customers, and to penetrate those markets previously closed to us. GTE would bring to the new company a local exchange business, including

operational expertise and a national, though dispersed, footprint, that provides an ideal platform from which the combined company can launch competitive facilities-based service to compete with the RBOCs. In addition, GTE would bring to the combination one of the nation's largest wireless operations. MCI has demonstrated prowess and retailing acumen in long distance and in serving the needs of large multinational business customers. Moreover, the companies together can pursue aggressive, innovative strategies for the data marketplace and begin competing in earnest for RBOC customers.

Both companies are committed to the global market. GTE currently has a presence in 21 countries in four regions, and derives 15 percent of its net income from its international business. MCI also has a significant global presence. We share the global vision of our industry that brought MCI and British Telecom together and look forward to discussing with you the continued development of that relationship within the context of this proposal. In fact, realizing the growth opportunities represented by the international marketplace would be another of our top strategic priorities, including continuing to work closely with our respective international partners.

There are additional important aspects to combining our two companies that also serve the public interest while enhancing shareholder value. Together, for example, we would have the wherewithal to make the investments in infrastructure necessary to foster innovation and job creation in our industry. We would deploy and operate the advanced high-speed network infrastructures encouraged by the architects of the Telecommunications Act. These networks would provide the solid foundation upon which a wide range of entrepreneurial competitors will build their services. In fact, the combined company would invest more than $8.5 billion annually in network deployment. The benefits of these investments would accrue to all of our combined and prospective customers. Our respective track records demonstrate that we have always been committed to providing all of our services universally. That commitment will not change. Indeed, combining MCI and GTE would enhance our ability to fulfill it.

Our two companies, having both emerged outside the dominant AT&T/RBOC structure, believe strongly in the public benefits of vigorous and fair competition, and the transaction we propose is clearly pro-competitive. It would clearly create, in both scale and scope, the most substantial facilities-based competitive alternative to the RBOCs and bring to customers a full complement of communications services, including local, long distance, wireless, Internet applications and video.

In addition, the merger of our two companies would result in significantly enhanced operating efficiency as well as new revenue opportunities as we respond to consumer preference for a complete array of products and services.

For these reasons, our legal advisors believe that we will be able to obtain the regulatory approvals necessary to consummate this transaction. We have been further informed by our financial advisors that any financing required to complete the transaction would be readily available. Thus, we intend to consummate this transaction in the same time frame as contemplated in the WorldCom proposal.

In short, Bert, my colleagues and I at GTE believe very strongly that a merger of MCI and GTE is in the best interests of all of our respective shareholders, customers, employees and business partners. It would unite two of the world's great telecommunications companies under a single roof while creating significant long-term value for all of our constituencies. I am personally very excited about this proposal - - which we are prepared to discuss with you in detail immediately - - and I'm confident that after you have reviewed it, you and your colleagues will fully share that enthusiasm.

Sincerely,

Chuck

CRL/dh